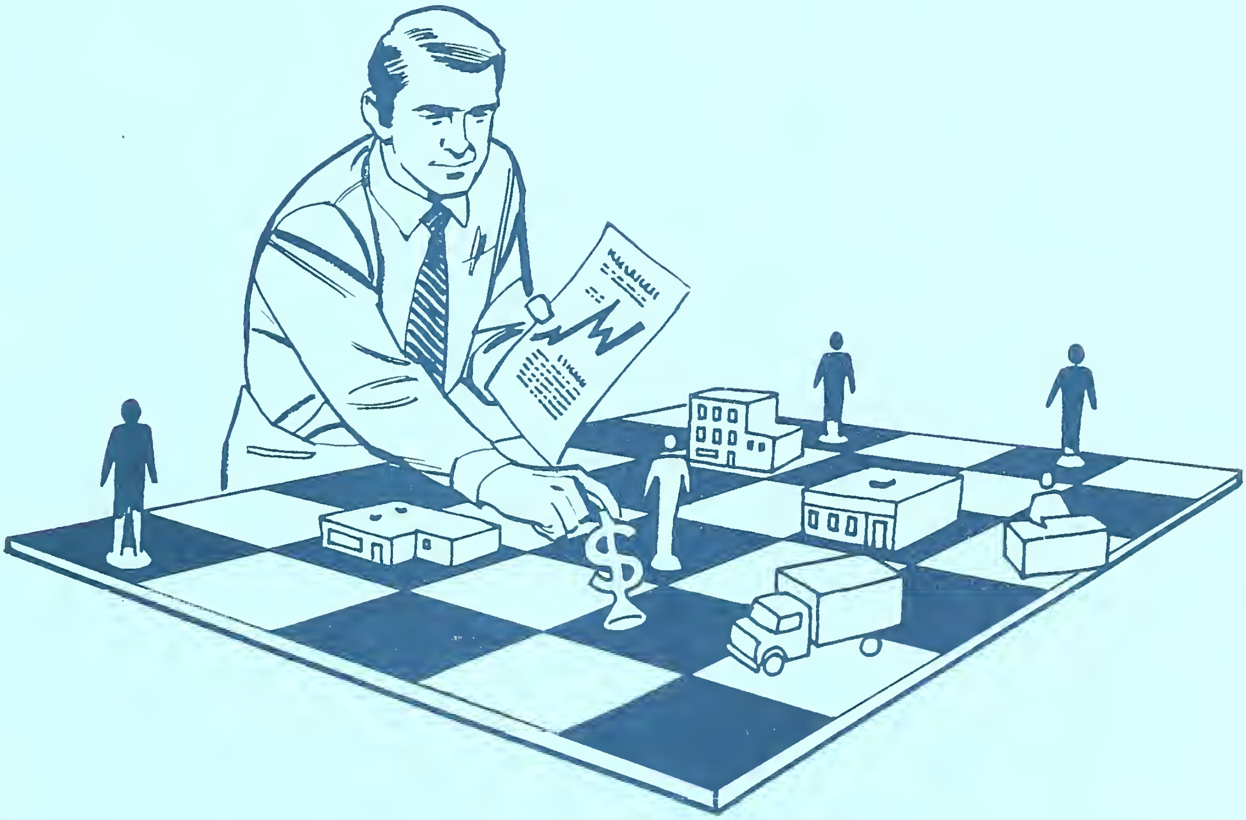
Agricultural Cooperatives: Challenges and Strategies



United States
Department of
Agriculture

Economics, Statistics,
And Cooperatives
Service

Cooperative
Research
Report 9

A much more comprehensive discussion of needed cooperative adjustments is included in the book tentatively titled *Survival Strategies For Agricultural Cooperatives*, Charles E. French, John C. Moore, Charles A. Kraenzle, and Kenneth F. Harling, Iowa State University Press, Ames, Iowa 50010. The book was written jointly with this research report.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402

Preface

The study this report highlights was undertaken in response to agricultural leaders' concern about the future ability of agricultural cooperatives to adjust to the rapidly changing and increasingly complicated environment in which they operate.

At the same time, agricultural leaders are becoming more concerned about the ability of the family farm to remain viable in a rapidly industrializing agriculture. The survival and growth of the agricultural cooperative is believed to be an increasingly important element in the survival of the family farm.

This study brings together a comprehensive analysis of issues affecting cooperatives and separates out the crucial factors that will help cooperative leaders better evaluate the alternative strategies that can best serve the family farmer and help him to survive.

Objectives of the study are:

1. To briefly assess the social, political, scientific, economic, and competitive environment faced by cooperatives;
2. To bring together the thinking of selected cooperative leaders and academic people on current and future issues;
3. To present alternative cooperative strategies and the means to accomplish them;
4. To orient farmers and cooperative leaders to the need for long-range planning; and
5. To project the future for cooperatives over the next decade.

The study draws from a number of sources, the most important being the authors' personal discussions with nearly 150 cooperative managers and leaders throughout the United States. Information by questionnaire was also obtained from nine cooperatives (core sample) and nine academic people as a "backdrop" for the opinions expressed by managers. Many publications and articles both in the cooperative and general economic areas also were reviewed.

The approach was to present an overview and analysis of a wide range of subject areas. Specific commodity or regional areas were not discussed separately. Emphasis was placed more on agricultural cooperative functions and strategies as they could be applied to all cooperatives.

All information and data are contained in a book tentatively titled "Survival Strategies for Agricultural Cooperatives" to be published by Iowa State University Press.

Appreciation is extended to all the cooperative managers and leaders, and academic people who participated in the study. Their interest and their candid answers to questions were extremely helpful.

The authors acknowledge the many comments and suggestions received from the following people who reviewed all or parts of the study manuscript: J. Warren Mather, Jack Armstrong, Dave Volkin, Nelda Griffin, James Haskell, George Tucker, James Baarda, J. David Morrissy, Clement Ward, and Donald Vogelsang, ESCS; Ronald Knutson, Texas A&M University; and Lee Schrader and Emerson Babb, Purdue University.

Contents

Contents

Highlights

Cooperatives can survive and can help the family farmer survive. Strategies do exist that farmer cooperatives can adopt to improve the income of their farmer-members. Much depends on the farmers themselves and their chosen cooperative leaders.

The basic purpose of the individual cooperative—which historically has been to enhance the economic welfare of its patron-owners—will remain the same. Difficulties will arise in the way cooperatives accomplish this purpose in a changing environment. Farmers, directors, and managers cannot take their cooperatives' purposes for granted. These need to be written and at times reevaluated.

The means to accomplish cooperative purposes have become more like those of other businesses. Greater emphasis is on efficiency, coordination of activities, employee welfare, and financial and managerial requirements than in the past. Ownership and control by members are no longer taken for granted.

Farmers and cooperative leaders must continually assess the environment in which they operate. Several issues now require critical decisions by cooperative leaders.

In the *scientific and technological environment*, cooperative research is lagging the research being done by non-cooperatives. Cooperatives studied, however, were gearing up to obtain more research from others or to do more of it themselves.

In the future, much more food and nutrition research will be done by a larger group of Government agencies, universities, and businesses. Research will also be more worldwide in orientation; more crop-oriented; more nonfarm food-oriented; more basic; and more focused on regulations.

In the *public policy environment*, antitrust will be a key cooperative policy issue and cooperatives will be under increased public pressures. Price and income policies will put more responsibility for self-discipline of agriculture on cooperatives.

Cooperatives will have a greater responsibility for representing the farmer in the minority role of agriculture. Cooperative leaders must stay aware of changes in commodity programs, marketing programs, the marketing system, and world food policy.

The *social environment* will find consumers pressing for more input into agricultural issues. Increasing environmental and public concerns will pressure agriculture.

The *economic environment* for cooperatives will be at least as favorable as in the last two decades. But cooperative patrons will demand a wider range of more integrated services and products.

The *competitive environment* will find marketing cooperatives neither dominating the competition nor being dominated by it. New ways of organizing to do business will involve multi-cooperative groups, foreign subsidiaries, Government-encouraged cooperatives, and specialized consulting and service businesses. Cooperatives will be more involved in more products and services in wider market areas.

In the supply inputs field, cooperatives will have to decide where they can be big enough to stay competitive. Farmers will need to decide questions of integration, diversification, or multi-cooperative organizations. More nonfarm supply customers will be available, and availability of both raw material and finished supplies will be of great concern.

The real issue in the handling of raw farm products is whether or not markets will be competitive and open enough to support the strategies of most first-handler cooperatives. Many cooperatives will consider adding other product lines to spread overhead costs and to assure market outlets. New marketing techniques, such as the teleauction and broader information systems, will be under experimentation.

Consumer affluence will continue to stimulate innovation in the packaging and distribution of products and services. Energy shortages, expanded world food needs, and desire to avoid inflated food prices will necessitate cost saving and efficiency.

Changes in food distribution will hold the key to access to the consumer. A big issue for cooperatives will be whether or not they must enter this competitive environment to protect their outlets. The key power institutions will be the retailer, the national diversified manufacturer, and the food service industry.

Each cooperative must have a well-defined strategy if it is to successfully adjust to this changing environment. Growth has probably dominated the strategy of cooperatives historically. This growth can be internal or external.

Most agribusiness growth has been by external means. External growth is becoming increasingly difficult for large cooperatives, and cooperatives are under public scrutiny about such growth. Internal growth will be necessary for cooperatives in the future.

Growth will be limited by: (1) Board and management; (2) capital availability; (3) competition from other cooperatives; (4) competition from non-cooperatives; and (5) environmental factors as influenced by consumers, public attitudes, and regulations.

Because growth by itself probably will not be an adequate strategy, farmers and cooperative leaders will need to consider three other general strategies: (1) Pursuing integration and coordination, (2) bargaining collectively, and/or (3) maintaining and improving the open market.

Organizational methods or strategies that can be used to accomplish the general strategies include: (1) Horizontal coordination, (2) diversification (and conglomeration), (3) multi-cooperative organizations, and (4) joint ventures.

The general marketing and organizational strategies also require special facilitating strategies or methods. These include: (1) Acquiring or maintaining Government sanction (such as the Capper-Volstead Act), (2) using information systems, (3) enhancing domestic demand, (4) expanding foreign trade, and (5) expanding financial sources.

Strategy, however, requires planning. Most large non-cooperative businesses now do formal planning. Cooperatives lag non-cooperative businesses in the total corporate planning process.

Total corporate long-range planning includes operational, project, and strategic plans.

Operational plans consider the future of existing activities in existing markets with existing customers and facilities. Project plans deal with specific projects, some of which take the cooperative into new areas. Strategic planning specifies the kind of cooperative the board and members want, the purpose, scope, and goals of the cooperative, the strategic alternatives for attaining those goals, and the operational details to carry out the strategy. Top management and key board officials must be deeply involved in planning.

The future of cooperatives is in farmers' hands. Cooperatives can provide valuable functions for farmers and society in general. If they are to do this, cooperative leaders must know how their environment is changing, how to develop strategies to adjust effectively to changes, and how to plan to carry out these strategies.

Agricultural Cooperatives: Challenges and Strategies

Charles A. Kraenzle[1]
John C. Moore[2]
Charles E. French[3]
Kenneth F. Harling[4]

The study this report highlights[5] was undertaken to answer a serious question—Will U.S. agricultural cooperatives make the necessary adjustments over the next decade to help the individual family farmer survive?

The study says "yes." Yet how well cooperatives help farmers survive depends on many factors, most of which could come under their control. Farmers through their cooperatives can direct their destiny. The study deals with how cooperatives can do this.

The study presents the environment—social, political, economic, and competitive—faced by cooperatives. It assesses purposes, strategies, planning techniques, and the future for agricultural cooperatives.

Cooperative leaders and farmers need a comprehensive source of information. Such information is often lacking or incomplete and is seldom specific to cooperatives. The reason is that such knowledge has to come from highly diversified sources. The study pulls together much of this needed knowledge.

The Agricultural Environment

Farmers and their cooperatives are influenced by the general agricultural environment. But they can also influence the environment. Any assessment of the future of cooperatives must consider this environment and how cooperatives fit into it.

---

[1]Agricultural Economist, Cooperative Management Division.

[2]Agricultural Economist, Farm Credit Administration.

[3]Former Professor, Purdue University; currently is Director, Food and Nutrition Study, President's Reorganization Project.

[4]Graduate Research Assistant, Purdue University.

[5]Charles E. French, John C. Moore, Charles A. Kraenzle, and Kenneth F. Harling, *Survival Strategies For Agricultural Cooperatives*, Iowa State University Press, Forthcoming. Much additional detail will be provided on the many subject areas covered here.

Scientific and Technological

An acknowledged factor in the success of American agriculture has been its scientific undergirding. Agricultural research in the early decades of the 20th century received its support mainly from public agencies. Over the last several decades, private agencies, including cooperatives, have been increasing their research support.[6] Estimates now place the private sector research efforts at about the same size as public efforts.

Cooperatives appear to lag behind their non-cooperative counterparts in research. Farmers need to increase emphasis on research that will assure them an outlet for their products. Several factors point to this need, including: (1) The de-emphasis of commodity-specific research in the old-line, specialized food companies that have become highly diversified; (2) the difficulty of justifying public support of research that gives special service to large non-cooperative firms; (3) the fact that research done by large non-cooperative firms is often kept secret; and (4) the greater research emphasis that non-cooperative firms have given to nonfarm food potentials.

During the past few years, food and nutrition research has been emphasized as the strategic factor in man's survival. In the future, expected developments in this area include:

1. Much greater public research expenditures for food and nutrition research;
2. Reduced emphasis on food and nutrition research relative to other research in U.S. food conglomerates;
3. More emphasis on research that has worldwide implications;
4. More emphasis on crop-related research relative to livestock-related research;
5. More emphasis on nonfarm, raw-material foods relative to farm-based foods, especially in product development and promotion;
6. More emphasis on basic research relative to applied research;
7. More concern for evolving technologies to meet food and nutrition needs;
8. A broadening of U.S. institutional involvement in food and nutrition research with proportionately less emphasis on the traditional USDA and land grant establishment;
9. More research findings available from other countries; and
10. More research on food regulations.

Energy and mechanical research will be expanded. Economic growth and the U.S. standard of living will depend heavily on it.

Biological research will greatly increase, especially in the basic areas such as biological nitrogen fixation by plants and microorganisms in the soil, genetic work, and photosynthesis. Stress resistance of plants and general crop breeding will be extended. Biological and chemical research may provide some farm-based food substitutes.

Weather and climate research will focus on three areas of potential agricultural impacts: (1) Adaptation of agriculture so it can adjust more effectively to variation in weather patterns, (2) weather modification by cloud-seeding and such techniques, and (3) temperature trend shifts in production areas around the world.

---

[6] Martin A. Abrahamsen, *Cooperative Research, Progress, Problems*, FCS Research Report 26, October 1973.

Most cooperative managers interviewed for this study were aware of the importance of scientific research and technological development for their own organizations and for farmers in general. However, cooperative staffs for research and development were found to be highly diverse and basically modest in size and program thrust.

Many cooperative programs were more concerned with quality control than with research. Little outside research work was hired. However, several organizations did collaborate in multi-cooperative research ventures. In general, individual effective research efforts were small, but many of the managers expressed plans to expand their research and development programs.

Although detailed studies were not made of cooperative research programs, several programs were observed. Five were characterized, ranging from one affecting only quality control, to another highly developed with well-trained researchers and well-planned programs.

Assessment

Cooperatives have a potential research problem in developing and promoting new and evolving product lines necessary to assure specialized farmers an outlet for their product. Large, diversified, proprietary agribusinesses are reportedly reducing research and development outlays in their food lines.

Cooperatives, as they seriously plan their future research efforts, must consider the following points: (1) Move quickly if they expect to compete in exploiting scientific breakthrough research; (2) do long-term planning in this area; (3) tap the public research community for many of their needs; (4) explore more research opportunities through multi-cooperative organizations and possibly joint ventures with public agencies; and (5) look to the worldwide research efforts and their effect on the overall outlook for their particular organizations.

Public Policy

The position of farmers in the public policymaking arena is eroding. But the increased importance of food needed to feed the world has helped to reestablish the advocacy position of agriculture. This has attracted other power blocks to the food policymaking area, often resulting in dissension. In such a policymaking forum, divisiveness within agriculture is detrimental to farmers.

Cooperatives have lacked significant influence in some areas of public policymaking. They must develop a more aggressive role. To do this will require cooperation and compromise.

Adoption of a national food and nutrition policy in the United States is being pushed with the details now being hammered out. The parties to such a compromise will be foreign policymakers and consumer interests, as well as agricultural interests.

Prices focus the real issue. Prices will depend on U.S. food exports and food aid policies. Whether policy is focused on a farm problem or a food problem will depend on the demand-supply balance. Price must be recognized as the rallying point and cooperatives must decide whether they will take a strong public stand for their members on that issue.

Other public policy issues that affect farmers and their cooperatives include the future of Government commodity and marketing programs, the marketing system itself, and world food and nutrition policy. Domestic price and income policy will evolve as a part of total food policy, with the world dimension an important element.

One key environmental factor for cooperatives is U.S. antitrust policy. The basic issue in antitrust is monopoly power in the food industry. Some cooperatives have been mentioned as having potential monopoly power, and some policymakers are concerned about this. Many proposals for new policies have been suggested, ranging from fine tuning of the laws to an extreme proposal of selective restructuring of the food industry.[7]

Assessment

Agricultural power in public policy has been eroded. Because cooperatives have been a traditional means to organize farm power, any substantial redress of the terms of trade for agriculture will involve cooperatives.

In antitrust policy, the strategic issue ahead for cooperatives is the amount of constraint antitrust regulations will place on them directly. It seems apparent that such constraint will increase. How well farmers fare will depend in part on new initiatives cooperatives undertake.

Social

The family farmer and his cooperative are mixtures of commercial and social factors. Cooperative leaders must recognize the elements of their social environment to choose prudently the appropriate strategy for survival. Important social concerns are consumer movements, physical and health environmental issues, and public relations.

Consumers are demanding that the products they buy are not only fairly priced, safe, and of good quality, but are also asking that they be given a voice in the decisions that affect them.[8]

In general, managers have believed that consumer movements have not and should not have any influence on their decisions. Managers' responses to the whole issue of consumerism have indicated a lack of concern and even some hostility for the subject.

Some experts see the consumer issue as less important than other issues farmers face. They view the consumer-farmer issues as side effects of other national issues such as inflation and foreign trade.[9] Yet many issues are of concern to consumers such as food prices, nutrition, food regulations, food subsidy programs, and pollution. All have an effect on cooperatives and their farmer-members, either directly or indirectly.

Agricultural leaders have long been concerned about public relations. But currently agricultural public relations has become a more serious problem. The public view of agriculture and cooperatives may well determine the manner in which they will exist.

---

[7] *Marketing Alternatives for Agriculture—Is There A Better Way?*, Senate Committee on Agriculture and Forestry, U.S. Government Printing Office, Washington, D.C., April 7, 1976.

[8] Philip A. Kotler, "What Consumerism Means for Marketers," *HBR*, 50, No. 3, May-June, 1972, and Frederick E. Webster, Jr., "Does Business Misunderstand Consumerism," HBR, 51, No. 5, September-October, 1973.

[9] Harold F. Breimyer, "A Reconciliation of National Goals to Food and the Aspirations of Farmers and Rural People." Paper given at Perry Foundation-UMC Seminar on Agriculture Marketing and Policy, Columbia, Missouri, December 5, 1975.

Most managers and academic people believed the public image of agriculture in general is good and that of cooperatives is, at least, not bad. However, a majority of the core sample respondents perceived a lack of public understanding about agricultural cooperatives. Managers also pointed out that cooperative leaders and others are not organized well enough to educate the public about agricultural cooperatives.

Assessment

The cooperative is part commercial and part social. The cooperative strategy cannot ignore the changing social environment. Consumer movements, physical and health environment, and public relations all impinge upon the cooperative and its strategies.

The basic consumer issue with specific implications for cooperatives involves a question: Can agriculture fulfill its needs to the world's hungry, and itself, and yet keep U.S. consumers reasonably happy with adequate food at a reasonable price?

Physical and health environment regulations are often enacted without much thought about costs. These costs weigh heavily upon farmers and cooperatives. How the benefits to society are equated with costs to society, and who bears those costs should be studied.

Cooperatives have inherited a problem of helping maintain a strong public image for themselves and for agriculture. Cooperatives must view correctly their public image and deal with it directly. Any strategy that does not do this may be costly.

Economic

Agricultural cooperatives are economic organizations and as such are much influenced by the economic environment. History has shown that those institutions that adjust to changing economic conditions survive; those that do not adjust, die.

The economic climate of agriculture has been turbulent during the last decade. The petroleum shortage caused near economic panic, especially in the developed countries.

The world demand for North American food supplies brought a series of economic reactions including unprecedented gyration in farm prices, erratic government trade policies, and waves of consumer wrath over high food prices. This changing economic environment has imposed great management stresses on farmers. The survival of the individual farmer has become a much greater concern.

The price and income situation for farmers and their cooperatives will continue to be influenced greatly by growth and inflation both in the domestic and world economies. U.S. population growth rate will continue increasing but at a slower rate. World population estimates are highly variable, but all point to alarming levels of population by the turn of the century. Thus, domestic and foreign demand for foods will continue to increase. However, U.S. agricultural output will continue to expand at a rate greater than domestic demand, making foreign markets a major factor in U.S. farm price and income policies.

Much apprehension exists about future U. S. export demand. This anxiety stems from several reasons: (l) At least 80 percent of the world population increase will come in the poor countries with limited funds for food imports; (2) sales to some countries are politically sensitive; (3) increased food production in developing countries may compete with U. S. products; and (4) policies of some countries show only modest liberalization toward accepting U.S. imports.

Another important economic issue is a potential capital shortage. Some people are concerned about increasing use of capital and a possible shortage before the turn of this century. Such a scarcity would slow the growth rate of cooperatives.

Cooperative managers who are asked to predict the future were basically optimistic about the economic outlook for the next decade not only for farmers, but for cooperatives in general and their own organizations specifically. To managers, the farm economic climate was a factor in retention of membership. They believed some specific planning was required, for possible shortages of inputs or other emergency issues. However, managers believed that the impact of the general business outlook on the management of the cooperative was similar to the effect it has on non-cooperative business.

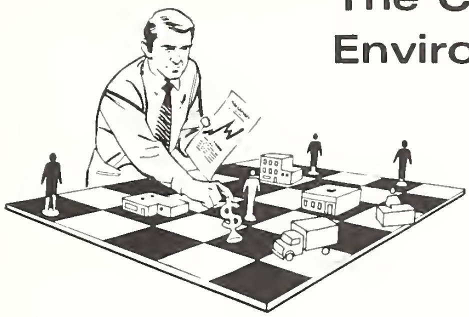
Assessment

Two aspects of the economic environment have direct implications for farmers and cooperatives. The first deals with the cooperative's role in encouraging larger exports. The level of exports has a major impact on farm price and income. The other deals with the fact that world food policies can alter sharply the comparative advantage of selected crop or livestock enterprises. This can have a material influence on specialized producers and can influence how a cooperative must develop programs for different types of producer-members.

Inflation is predicted as a fact of life and cooperative strategy choices and operational tactics must deal with it. Cooperative policies must recognize the effects of given rates of inflation and their cumulative effects.

U. S. prices are predicted to be more volatile than was typically true during the past decade. Shortages and unstable prices can provide cooperatives with special opportunities. Many progressive supply cooperatives have used this to their advantage in recent years. Cooperatives must not relax; planning should help.

Transport and related costs are singled out as being highly vulnerable to inflation. Cooperatives may want to emphasize this variable in planning their procurement and distribution policies. This may affect their evaluation of a multi-cooperative strategy.



The Competitive Environment

Typically cooperatives neither dominate their competitors, nor are they dominated by them. The role of cooperatives has always been to make agricultural markets more orderly and competitive. At best, they have tempered competition rather than dominated it. Current developments raise questions as to whether such a competitive stature is adequate for cooperatives to survive.

Today's patron is expecting more from the cooperative. He expects a diversified and coordinated bundle of products and services. He expects technical and economic efficiency whether reflected in timeliness of service, price of product or service, modernization of processing and distribution facilities, or economy or efficiency in a host of other areas.

Many cooperatives are considering new ventures, especially vertical integration into marketing. The competitive environment for such ventures is vastly more complicated and demanding than the environment formerly faced by cooperatives. Such ventures intensify use of capital, specialized expertise, and purchase of services.

Cooperatives figure heavily in the agricultural policy question of "Who will control agriculture?" One alternative, put forth especially to preserve the independent farm, is a strengthened cooperative system. Such a focus would put the cooperative even more directly into the total competitive spotlight between agriculture and others.

Cooperatives are innovating with new institutions. A range of organizations has been built from a broad base of local cooperatives—federated regionals, centralized regionals, multi-cooperative (interregional) commercial ventures, multi-cooperative service or political ventures, international alliances, and joint ventures.

The above trends mean larger and more complicated cooperatives. Such cooperatives will push harder against the competitive environment. And they can expect the competitive environment to push back. More public scrutiny is assured.

This brief competitive backdrop sets the stage for cooperative strategies. Against this backdrop, the key subsectors of agricultural competition are reviewed.

Farm Suppliers

The importance of farm suppliers in the U.S. food and fiber system has been increasing. Because farmers purchase more and more materials used in production,[10] the farm supply industry has become a growth industry. Five important areas—petroleum, fertilizer, feed, pesticides, and machinery and equipment—are briefly reviewed.

[10]USDA, *Food and Fiber System—How it Works*, Agri. Inf. Bul. 393, ERS, USDA, Washington, D.C., 1975.

Petroleum

Geographically, the petroleum industry can be characterized as concentrated and fragmented. Most oil and gas brought to the surface are produced in several States.[11] In some regions, the leading firms have a dominant share of the market.

The cooperatives' share of the farm petroleum market has been increasing. Cooperatives own several refineries but few oil wells to furnish crude oil for the refineries.

Fertilizer

The fertilizer industry is also relatively concentrated. However, a few cooperatives rank among the top firms in the production of certain fertilizers or derivatives.[12] In total, cooperatives have been increasing their share of fertilizer production.

Feed

The feed manufacturing industry is not nearly as concentrated as other industries in farm supplies. Cooperatives' share of total U.S. feed manufacturing over past years has declined slightly.[13]

Pesticides

Production of basic pesticide chemicals is carried out by some of the largest and most diversified firms in the country.[14] No individual cooperative has been in the primary production of pesticides until recently, although cooperatives do own and operate a number of formulating plants. In recent years, an increasing percentage of total pesticides sold to farmers has been accounted for by cooperatives.

Machinery and Equipment

Concentration in the farm machinery industry is quite high. Several major manufacturers ("full-line" companies) operate on a worldwide basis. These companies are diversified and farm machinery accounts for almost half of their sales.

The role of farmer cooperatives in even the sale of machinery and equipment to farmers is very small.[15]

Assessment

The key competitive issue for cooperatives is whether they can become strong enough to compete with the large firms that operate in the farm supply industry. Competitive cooperative strength could come through many different means. Vertical integration back into raw material discovery and procurement is one. Another would be horizontal growth in selected specialized input sales areas.

---

[11]USDA, *Structure of Six Farm Input Industries*, ERS-357, USDA, Washington, D.C., 1968.

[12]Duane A. Paul, *et. al.*, *The Changing U. S. Fertilizer Industry*, Agri. Econ. Rpt. No. 378, ERS, USDA, 1977.

[13]J. Warren Mather and John M. Bailey, *Cooperatives' Position in Feed Manufacturing*, FCS Res. Rpt. 25, FCS, USDA, Washington, D.C., 1973, and Carl J. Vosloh, Jr., *Structure of the Feed Manufacturing Industry, 1975: A Statistical Summary*, ESCS, Statistical Bulletin No. 596, USDA, Feb. 1978.

[14]USDA, *Structure of Six Farm Input Industries*, *op cit.*

[15]Lloyd C. Biser, *Cooperatives' Farm Machinery Operations*, FCS Inf. 86, FCS, USDA, Washington, D.C.

Cooperatives can diversify in many ways within a range of input items as well as by coordination of marketing, supply, or political or other service divisions. Markets can be expanded to new customers within both the farm and the non-farm markets. Also, geographic market expansion is possible. Multi-cooperative or joint ventures with non-cooperatives might strengthen cooperative programs.

The means for increasing competitive strength exist. Cooperatives must decide whether or not to use a stronger strategy.

A related issue is how far a cooperative should diversify to compete in the input industry. What types of organizations, functions, and products go together? Establishment of long-run strategies for cooperatives involves an appropriate relationship between supply and bargaining and/or processing and marketing cooperatives.

Farmers must decide whether their cooperatives can effectively handle two or possibly three very different competitive fronts. Procurement of supply in the inputs industry is well established and strong, often with international operations. The retail side is diverse in products and services. In many markets it is highly concentrated. Does the cooperative have an inherent competitive advantage because its owners are also its users?

Sheer size issues are important. Farmers must decide if they want their cooperatives to put together such a large program as is necessary to compete in this environment. Do they want their cooperative to be this big? Do they want to consolidate institutions, often designed to perform specific functions, into a large diversified organization whose purpose and identities will be much less recognizable and accountable? To compete in this type of supply industry at any one stage requires a well-selected strategy and planning.

Cooperative boards may also need to consider the possibility of establishing cooperative control over farm production for processing needs or increased marketing programs to protect markets. When all these issues are put together, they can multiply the number of crucial questions for agricultural leadership.

Special related problems include acquiring capital, undertaking research and development, maintaining quality control, gaining consumer entree, managing needed inventories, and carrying out appropriate distribution.

Cooperatives must also assess the international issues of the farm supply industry. Should they go into selling inputs abroad? Growth opportunities exist there. Also, should they expand the import of crude oil and other supplies? Or should they expand the production of crude oil in foreign countries to help ensure a source of supply for their American farmer members? Many non-cooperative firms are assessing the foreign market and making long-range plans accordingly.

Procurement opportunities for supplies have broad international implications. Farm machinery has been internationally focused, but the great need for intermediate technologies by foreign farmers may not be met by this industry.

Foreign agricultural cooperatives are strong in many countries. Cooperatives are an acceptable form of business enterprise in many areas of the world, whereas non-cooperative organizations may not be as acceptable. Many service needs of agricultural people abroad are not being met and no obvious institution is evolving to supply these needs. Some cooperatives studied were looking at these alternatives.

Many cooperative arrangements have allied a general farm organization (a political arm) with the first-sale, commodity marketing arm. Many more recent developments have alined service cooperatives such as insurance, travel agencies, and financial organizations with the general farm organization. A key planning question is, "What does the competitive environment say about consolidation of all such supply, service, and political organizations in a State or region?"

An issue arises about the kind of multi-cooperative or other joint organization cooperatives should build in the inputs industry. Some important successes have evolved, and general satisfaction and enthusiasm were expressed by many cooperative managers for the multi-cooperative ventures of which they were members. However, the rapid growth and scope of several ventures were starting to be of concern. Many issues such as the allocation of scarce capital among multi-cooperative organizations and other uses are yet to be resolved.

Opportunities for joint non-cooperative and cooperative ventures must be studied. Possibly these can share the large cost, help spread the power concentration, and facilitate comparative advantages for each party. The types of institutional organizations needed here, whether all-cooperative or joint with non-cooperatives, are quite different from the organizations under which cooperatives usually have operated in the past.

Supply cooperatives must decide who their customers are to be. The requirements of different farmers for inputs and services pose a problem. Examples exist of large patrons pulling out of the traditional cooperative to make their own joint purchases. Whether the cooperative can obtain purchasing commitments from its own membership will figure heavily in any strategy to enhance the supply cooperative power base. The diversity of customers for supply items raises questions of patron equity and loyalty.

Also, cooperatives seem to have a somewhat unconvincing strategy with regard to servicing nonfarm customers. Service needs of these customers vary considerably from needs of farm customers. Also, a strong power move to nonfarmer markets by supply cooperatives could raise public questions as to whether this is appropriate under cooperative legislation passed years ago.

Supply cooperative strategy may need to deal with the relationship between consumer cooperatives and supply cooperatives. Many similarities exist. Changing U.S. social structure could foster consumer cooperatives; they are already important in many parts of the world. More attention needs to be given to possible strategies of coordinating the activities of consumer and supply cooperatives.

The issue of available raw material is a crucial one for cooperatives. To have access to raw or processed supply is often crucial, but it raises a major issue of how much should cooperatives vertically integrate backward into raw supplies or processing capacity.

Cooperatives have moved significantly toward basic raw material production, pressured by scarcity and fluctuating prices. How far should this backward integration go? Some have contended, for example, that cooperatives should have been much more active in integrating the broiler industry through their feed supply base before the non-cooperative firms moved so far.

The resources to compete in the discovery and procurement of raw material, for example, in fertilizer or oil, are massive. The opportunity cost for capital used here versus the value of assured supplies is an important question. This is especially difficult given the uncertainties surrounding the U.S. energy policy.

The role of public sanctions in the farm supply industry may be an issue. Cooperatives have fewer public sanctions in this field than they do in other areas. Most public sanction advantages for farmers are focused on the farm product bargaining, processing, and marketing areas and not on the input and procurement areas. Supply cooperative managers must think carefully about inferring special strengths of public support from marketing experiences, especially with regard to integration and multi-cooperative organizations.

Public scrutiny recently has raised important questions in related industries such as oil and tires. This has not significantly affected cooperatives, but it could become an issue. Cooperatives can perform some countervailing power role in this field at local levels, but they must not overestimate their potential effect nationally. A question arises as to whether or not it is strategic for farmers through their cooperative to make large investments in an industry depending primarily upon the public to control the balance of competitive power nationally.

Antitrust policymakers may see reasons to encourage cooperatives in the input industries to foster competition. The role the farm supply division holds in a large non-cooperative conglomerate is often minor. The minor role makes the more specialized supply cooperative competing with this unit vulnerable.

Problems of the smaller specialized company competing against a larger diversified one are well established. When the supply division of a conglomerate firm is also relatively small within its organization, management may force conduct on the supply division that jeopardizes the competing cooperative. The array of problems could call for some evening up of market power, especially by strengthened supply cooperatives.

Another cooperative issue is whether or not to exploit the growth momentum of the supply industry. This industry promises to continue to be a growth industry for some time. New organizational arrangements often are much more adaptable to growth industries than stable or declining ones. On the other hand, a growth industry can compound problems for a related industry and individual institutions in it. Also, an existing institution in the growing industry can have new growth related problems. Cooperatives must distinguish their position with regard to these farm-supply growth factors.

U.S. farm production has been energy intensive and thus input-supply intensive. This could be altered some, but few are arguing that a major shift will occur. The increasing supply needs of farmers may give cooperatives some opportunity to preempt non-cooperative firms from entering the newer expanding supply areas. Should such a strategy be exercised? Should cooperatives serve needs other than those of their farm members? These are key cooperative questions.

Strategic planning will involve the question of greatest comparative advantage for an individual cooperative. Would the growth advantages of the supply industry be more promising as an alternative to pushing into the marketing side of the food industry where growth may be much more sure, but probably more variable?

Demand for some major farm products may be much more unstable than demand for farm supplies and complementary supply markets. On the other hand, cooperative leaders may feel much more responsibility for monitoring markets for farm products than for preserving availability or costs of supplies or creating demand for supplies. A question exists as to which will best satisfy patron needs.

Growth of supply cooperatives into wider geographic markets may be an alternative. Cooperative input markets have been fairly well restricted to historical membership areas. This is not a criterion used by non-cooperative competitors. Most cooperatives studied seemed to project a continuation of this policy, but some were expanding. The plans of the expansion-minded cooperatives worried the others.

Some good reasons exist for expansion of farm product markets outside the patron areas but to do so with farm supplies will be more difficult to justify. Yet some cooperatives studied were comparing expansion opportunities geographically with expansion by acquiring larger shares in their existing areas. Some were using both.

Growth in local and regional markets may be open to cooperatives. Some have found such local market situations favorable. Although their share of market is usually important in local markets, cooperatives need to do careful local market analysis. They should also use care in designing strategies based primarily on regional or national structure data.

Data were not collected on market shares, but they are known to be high enough in some markets that possible social restraints need to be kept in mind when seeking more intensive sales in a given market. Overall, cooperatives appeared to have growth potential left both in local and expanded markets.

Unsuccessful ventures by large non-cooperative establishments into the farm supply industry have resulted in sales of some outlets to cooperatives, and some managers saw promise that large diversified supply firms may yield more business in the rural specialized market.

The cooperative may well have a competitive advantage because it has special entree to its customers who are also its owners. Farmers may find that rural supply distribution opportunity is also useful in any program to control agriculture by cooperative structures. Cooperatives' strength and their growth potential in supplies argue that any cooperative system designed to control agriculture will substantially involve the supply handling cooperatives.

First Handlers

The historical cornerstone of cooperative strategies has been the first-handling function. Thus, the first-handler competitive situation is a crucial one in assessing equity for farmers.

Many changes have taken place in recent years in farm marketing. Output has increased. The kinds of markets used by farmers have changed. For example, the number of livestock sold at terminal markets has declined. More and more of the livestock produced on farms are being sold directly to packers or through auctions.[16] The whole system has become much more integrated[17] and less competitive.

Farmers have been increasing their share of products marketed through their cooperatives, but with few exceptions such as in milk or speciality crops, cooperatives still do not market a large share of farm products. However, additional functions of processing and marketing are being assumed.

Assessment

"*Will the competitive market endure*?" is the big question for the first-handler cooperative. First-handler cooperatives were formed to provide a competitive outlet. They have relied on a rather open, competitive market. However, with increased integration by food conglomerates and some cooperatives, accurate and equitable price discovery and reporting are threatened. It is questionable whether the specialized non-integrated marketing cooperative can compete.

---

[16]USDA, *The Future Role of Cooperatives in the Red Meats Industry*, Mkt. Res. Rpt. 1089, ESCS, USDA, Washington, D.C., April 1978.

[17]Ronald L. Mighell and William S. Hoffnagle, *Contract Production and Vertical Integration in Farming, 1960 and 1970*, ERS-479, ERS, USDA, April, 1972.

Farmers may need to depend heavily on accurate market information and public sanctions such as Federal orders to assure orderly marketing. Choice of strategy will be influenced by whether farmers can continue to rely heavily on public administration to maintain orderly administered markets.

Cooperatives must select the organizational strategy which can buffer the power base of the large, diversified food organizations. However, it is not clear where the real competitive power lies. Members of first-handler cooperatives must decide whether to be worried about retailer power, conglomerate processing power, differentiated suppliers with national brands, and/or the diversified and integrated cooperatives. Anyone may be the real competitive force of concern for first-handler cooperative members.

"*How specialized should the first handler cooperative be*?" Such cooperatives can add many products or services that allow more options for the disposal of products handled. For example, increased foreign trade has raised questions about the small, specialized cooperatives. The large proportion of grain assembled by cooperatives compared to their small percentage directly exported is well known. The competitive structure at various levels of product handling is a formidable issue for the predominantly first-handler cooperative.

"*Is efficiency enough*?" is much more than a trite question for first-handler cooperatives. Such cooperatives must typically rely mainly on serving specialized needs and achieving top efficiency.

Whether the size and scale of efficiency for the first-handler cooperatives can be expanded through the use of new marketing methods such as the teleauction raises many questions.

The first-handler cooperative cannot exist as just another outlet; it should have a specific need. The plight of too-many and too-small local cooperatives is well known. The competitive structure now evolving at the first-handler level will demand increased scale of operations.

Food Processors

Food processing has grown from a rather specialized, craft-type enterprise to a large scale, capital-intensive enterprise of strength and complexity. Today, the industry is characterized as large, diverse, increasingly integrated, and growing. The number of firms and establishments is declining, and concentration is increasing with more diversification and conglomeration. Some of the world's largest multi-national conglomerate-industrial firms are operating in the food processing industry.[18]

Value added by manufacturing companies in food and kindred products is more than double the value added by the farming sector. This has raised questions about the feasibility of farmers gaining more of this value through their cooperatives. Some managers see this as encouragement for greater vertical integration by cooperatives. Cooperatives have not been heavily engaged in processing but the study found great interest and important cooperative planning of new ventures into this area.

Research and development in the food processing industry have been relatively small in comparison to most other industrial sectors. And most of this has been by the

[18] W. Smith Greig, "A Description of Structural Trends in the Food Processing Industry in the U.S.," in *The U. S. Food Industry: Description of Structural Changes*—Vol. I, Tech. Bul. 129, Colorado State Univ. Exp. Station. Fort Collins, p. 42.

large companies. Most of the growth in food processing has not come from the development of new products but from new forms of well-known foods.[19]

Few new products have been produced because research and development are very costly and only a few of the large processing firms can afford initial development and promotion costs for new products. These points are important ones for cooperative leaders to keep in mind.

Assessment

Cooperative leaders view the processing and marketing area as important for one or more of the following reasons: (1) To extend the farmer's involvement in his product so as to enhance his total share of the consumer's dollar; (2) to exploit food research and development applications, particularly to protect the outlet for farm produced goods, often by development of new uses for farm goods; (3) to assure farmers a direct outlet for their production, often whether tailored to the market or not; (4) to enhance bargaining strength; and (5) to maintain consumer acceptability of farm produced goods.

The first objective, "to extend the farmer's involvement in his product so as to enhance his total share of the consumer's dollar," raises many questions. Does the farmer need this means of investment? Do his public sanctions fully support this, or could they be weakened by these movements? Does the cooperative have a comparative advantage in this activity? Is this objective fully supported by the rank-and-file cooperative membership? What kind of additional market or distribution activities will be necessary to fully exploit this increased activity? Will cooperative activity in these functions upset the buffer of competition provided by the non-cooperative companies in the food processing sector, especially the independent (nonchain) companies?

The second objective, "to exploit food research and development applications, particularly to protect the outlet for farm produced goods, often by development of new uses for the farm goods," raises many of the same questions as the first objective. One important issue with regard to this second objective deals with the level of dedication of the large, diversified firms to their food divisions. Are other divisions more profitable? Will the large, diversified firms put the same proportional research and development resources into the food division as they have in the past?

Is there a risk to the farmer that nonfood produced goods can be developed so his raw material is no longer needed? Could the large, diversified firms exploit these goods to the farmer's disadvantage? Is it better to go directly into research and development in individual cooperatives or to coordinate this work by joint ventures among cooperatives?

This has been done by the dairy cooperatives and to some extent by citrus cooperatives. The massive capital expenditures for this approach may not be feasible for farmers. Farmers have had a history of capital rationing, externally and internally. Will farmers support this much investment?

The third objective, "to assure farmers a direct outlet for their production, often whether tailored to the market or not" is questionable. Some farm markets have been lost by the closing of non-cooperative factories. One notable example of farmers' conviction

---

[19] W. Smith Greig, *op. cit.*

that they must protect an outlet was in sugar production. Many local cooperatives have been set up to provide a market outlet in a particular area. But cases where a commodity does not promise a profitable outlet for non-cooperative firms should be checked carefully.

Often a special enterprise engaged in by patrons of a cooperative, such as poultry production, makes it feasible for the total cooperative to help underwrite a venture in processing and marketing for this part of their membership. The equity issue must be handled and many cooperatives have handled it.

At the macro-issue level, cooperatives may need to enter processing and marketing to preserve the price-making functions of the market. Central market volumes have declined with vertical integration. In some cases, price discovery is inadequate to assure equitable treatment for farmers. Also, a special product such as fruits and nuts in a fairly small geographic production area may need processing and marketing to establish, maintain, or protect a national market.

The alleged need for cooperatives to enter processing and marketing just for a direct available market must be checked carefully. Often a poor opportunity for non-cooperative firms is a poor opportunity for cooperatives. If the cooperative needs to go this far, a key question then is, "Why not follow on through to distribution as well?" Each case must be assessed individually in building a competitive strategy.

The philosophy of developing a market simply because something is produced may also be questionable. A strategy dictated by processing or marketing only what is produced can be a vulnerable one. Competition necessitates matching production with demand; strategies must consider both.

The fourth objective of entering processing and marketing, "to enhance bargaining strength," may be germane at either the individual cooperative level or the macro level. Many bargaining cooperatives, such as dairy, have gone into processing and marketing activities to enhance bargaining. This has been particularly important in perishable products where seasonal surplus must be handled, and more importantly where bargaining is extremely precarious unless an alternative is available.

The whole nature of how bargaining may become used as a general strategy for cooperatives will dictate the degree to which cooperatives enter processing and marketing. Such operations will often be necessary in order to bargain effectively. In some instances cooperatives in processing and marketing may be missing a bet by not considering the complementary bargaining function in their strategy.

A fifth objective for going into processing and marketing, "to maintain consumer acceptability of farm produced goods," identifies the general market accessibility as important. This differs some from objective two where the cooperative is trying only to increase its share of the value added to the product, primarily by new products. Processing and marketing will probably be necessary functions if consumer acceptability is the prime objective.

This can mean a total strategy that is rather thoroughly integrated, capital intensive, complicated managerially speaking, and much removed from the original production-oriented cooperative. The instances in which cooperatives enter processing and marketing will be dictated substantially by local marketing and production characteristics of the cooperative and its patrons.

A central issue in objective five is timing. Cooperative leaders must ask themselves if their cooperatives are getting into processing and marketing as a somewhat specialized activity at the very time that it is unpredictable. Non-cooperative companies typically are

not now entering this field of specialized units. They are selling off their existing specialized units (e.g., liquidation of fluid milk divisions by large, diversified food companies). They see these units as part of a total package but not as stand-alone units. In their long-range planning, they place even less emphasis on specialized units.

Food Distributors

The food distribution industry can be described in various ways, and includes several types of institutions such as food brokers, wholesalers, retailers, and food services. Emphasis in this section is on the retail and food service industries, the two that control entree to the ultimate consumer. These two should be of major concern to the cooperative strategist.

Food retailing is one of the largest industries in the United States, accounting for about 20 percent of all retail sales. The dominant institutions of the retail food industry are the chainstore and the large supermarket. In 1974, about 72 percent of total food distribution was accounted for by supermarkets.

Concentration by the top 5 and 10 firms in food retailing has not grown excessively; however, the top 50 firms as a group have increased their share through the sixties and early seventies. Concentration of sales by firms in local markets has increased and is often quite high.

The food service industry is made up of three broad groups: (1) Institutions and public eating places serving food to consumers, (2) institutional wholesalers, and (3) food manufacturers and processors that prepare products especially for the food service industry. The industry is composed of more than 300,000 establishments and eating places and uses a range of products.[20]

Assessment

Abundance and affluence greatly affect food distribution. Historically, food distribution was geared primarily to the concept of scarcity and efficiency.[21] However, food distribution has adjusted to growing abundance and affluence, and the food service industry is a significant adjustment in this direction. The modern chain supermarket has also adjusted, offering a large number of nonfood items and a tremendous amount of service. A big issue for cooperatives is whether they can diversify into this type of market and compete effectively with the skilled merchandisers now selling to today's discriminating consumer. The consumer wants not only a product but a product furnished in a specific way and at a specific time, along with specific services.

Retail structure is important to cooperatives at the national level for two main reasons. First, the sheer competitive power of the retailer can be overwhelming. Coordination and concerted interaction may be loosely formulated over a series of local and national markets. But the retailer is a recognized and vital factor in U.S. food distribution. The size of the retailer subsector and interdependence within the subsector give it strength. Second, most product procurement by retailers is concentrated at the regional and national centers where large buyers represent chains and affiliated independents.

[20] *Your Food: A Food Policy Basebook*, Publ. No. 5, National Public Policy Education Committee and Cooperative Ext. Serv., The Ohio State Univ., Columbus, Nov. 1975, p. 50.

[21] W. Smith Greig, *The Economics of Food Processing*, (Westport, Conn: The AVI Publishing Co., 1971).

Retail structure also is of importance to cooperatives at the local and regional level, again, for two reasons. First, the regional and national procurement program of retailers, mentioned in the preceding paragraph, can put a local or even a regional cooperative at a competitive disadvantage. Second, the probable entry level for most cooperatives is at the local or regional level. Here they should expect to engage substantial sales competition in concentrated markets and may have to use consolidated power of their own.

Two rather substantial erosions of retailer power have been evolving. First, there is a move toward centralized functions by products. These tend to take the form of highly specialized functions of wholesaling and merchandising. The ultimate goal here is a store that is merely a framework into which palletized, prearranged displays can be wheeled into place each morning. This store is literally rebuilt in the displays prepared at the centralized warehouse each day. This type of functional concentration may bring a whole new competitive structure in procurement. A fundamental question for cooperatives lies in whether this procurement approach is a good place for them to enter.

The second erosion of retailer power has been from the food service industry itself. Consumer outlets are many and often small but the buying unit serving them is often large. By most measures, the food service industry has been one of the fastest growing U. S. industries in the last 15 years. Many variations exist; it is a complicated and difficult industry to service. Food store retailers are competing with this unit by installing various consumer outlets and services, such as the delicatessen, within their own stores.

Interests of the farmer and the retailer are diverging. Cooperatives must consider this trend. Very substantial arguments have been made that retailers, because of their merchandising program and the number of nonfarm oriented products which they handle, fail to secure the highest prices possible for farm-produced products. In this sense cooperatives have a significant decision to make with regard to how the retailer fits into national farm income and price policy.

The highly diversified product line of the retailer means that new products must be continually fed into the line. Great difficulty arises in determining how new product choices are made. Moreover, the increasing competition of nonfood items is well established. The products of cooperatives, especially specialized ones, are of lesser and lesser specific influence on the traditional diversified retailer.

The pricing policy of retailers is basically one of obtaining an aggregate average margin. This may include sale of items at a low margin or loss. This can substantially impact the price of individual commodities. Cooperatives, especially commodity-specific, may have a problem adapting to this type of pricing policy.

Accessibility to the consumer is probably the biggest issue for cooperatives with regard to the food distribution system. Non-cooperative food processors, manufacturers, and distributors consider this of paramount importance. The primary access to the consumer today is through the large supermarket chain or the food service wholesaler. Both of these are difficult areas for cooperatives to enter.

Non-cooperative food processors and distributors at the national level have usually made long-range plans that guarantee them not only accessibility to the food retailer but to the food service industry as well. They believe it is imperative that they get a share of the substantially increasing business of the food service industry. To do so, they believe control requires direct entree to an outstanding wholesaler who can access the food service subsector.

The retailer has been the farmer's basic representative to the consumer. A fundamental decision rests on whether farmers can continue to depend on the retailer for that

function. Service has become an important component of consumer needs. Price and service are tied together in the retail and food service industries.

A key question for cooperatives is whether they can move into a food industry so geared to services and compete with the established, specialized merchandisers. This is an area quite removed from the raw material production with which cooperatives have been associated. The retailing field is a rapidly changing one in which market demand estimates are difficult to make.

Farmers cannot ignore their public relations role with regard to food distribution. The retailer has been the basic focus of consumer wrath about food prices. This has shifted somewhat; the wrath is now directed more and more at farmers as well as retailers. Consumers' concern over high food prices makes them very sensitive to the effect of food exports on domestic prices, thus making food price policy an international issue.

The focus of U.S. consumers is on domestic food prices. Consequently, the question is whether marketing cooperatives can depend on public attitude and policy to protect their image concerning food prices. This is especially true in a free-market, export-oriented farm policy. Cooperatives may need to enter the field to get more direct entree to consumers. This could put them in a much stronger position to deal with consumers directly, rather than through an intermediary representative—the retailer.

Integration of the food distribution sector, both backward from the retailer into the manufacturing sector and forward from manufacturing into retailing, is of concern to cooperatives. A significant effect is whether the non-cooperative type of processing organization can exist with this kind of integration. An alternative to integration is for food retailers to contract directly with cooperatives and ignore the current middleman processor and distributor. Farmers through their cooperatives could also integrate into retailing and manufacturing simultaneously, but this is a tremendous undertaking. Integration issues are increasingly important in determining cooperative strategy.

Thus, the retailer and food service industries are no longer passive institutions handling the farmer's product. They are tied closely to him, sometimes in a mutually beneficial role, sometimes in a competitive role. Cooperative leaders must consider the role and operation of food distribution if cooperatives are to help farmers survive.

Cooperatives' Reasons for Being

The importance of cooperative long-run objectives and goals is too often overshadowed by day-to-day operations; this can lead cooperatives astray. Cooperative leaders, managers, and policymakers need to consider much more than just the daily problems. They must ask themselves often, "Why cooperate?" The reasons for being, or purposes of cooperatives as part of public policy, must receive continual scrutiny. A clearer delineation of purposes will give cooperative leaders greater direction for making decisions affecting cooperative adjustment.

Original Stated Purposes

Formal cooperation among U.S. farmers had its beginning in the early to mid-1800s mainly because of economic conditions, especially the monopolistic control exerted by middlemen. Farmers realized the need to counter the increasing power of firms who bought their products. They realized a need for more input in price determination and a closer relationship with consumers. Through cooperation farmers were often able to sell their products with greater returns. Eventually, farmers also realized that supplies could be purchased more economically by utilizing their cooperatives as purchasing agencies.

Stated purposes of the core-sample cooperatives in their original Articles of Association or Incorporation were studied by the researchers. The original purposes included specific activities patrons desired the cooperatives to engage in, but the "whys" were stated in a most general way. In other words, activities as stated would be handled on a cooperative basis for the economic benefit of patrons, and for the general welfare of agriculture.

What exactly was included in determining activities "desired by patrons," in "operating on a cooperative basis," and in "the general welfare of agriculture" was not well defined. Thus, the "why" and "how" in the stated purposes lacking specificity. In practice, however, the cooperatives adopted some variation of the Rochdale principles.

Current Stated Purposes

Current stated purposes of the core-sample cooperatives also were studied. Variation was found among these cooperatives in managers' and directors' perceptions of what their cooperatives should be doing. Their present stated organizational objectives appeared to lack cohesion and direction.

One common thread among all organizations was a stated purpose to operate for the improvement of the farmers' economic position. This original major purpose had continued without much change, but the ways and means of accomplishing it may have changed considerably.

The statement, "to operate for the improvement of farmers' economic position," may not be enough to guide cooperative leaders and policymakers in decisionmaking today. Are there other secondary or more specific purposes that managers and directors should be accomplishing?

In striving to accomplish one major objective, cooperative leaders possibly destroy their chances of achieving other important objectives. For example, cooperatives that continue operating without revolving their oldest member equity or without allocating net margins to member-patrons (although paying resultant corporate income taxes) may run the risk of losing the unique treatment given to farmer cooperatives.

From an analysis of the original and current stated purposes of the core-sample cooperatives and discussion with cooperative management and academia, the researchers concluded that:

1. Operating on a cooperative basis (using some variation of the Rochdale principles as a guide) has become less important.
2. Marketing activities have become more prominent.
3. The welfare of employees has become more important.
4. Ownership and control by members have received increased emphasis.
5. More concern is being given toward the coordination of activities within and between cooperatives.
6. More emphasis has been placed on quality products and inputs, financing, management, and planning.

Future Cooperative Purposes

In personal interviews, managers were asked to explain their cooperative's future reasons for being. Their replies included various ways (such as further integration into marketing or basic materials) of carrying out their major purpose—to improve the economic welfare of their members.

As a whole, cooperative managers did not think the objective of their cooperatives was to improve the level of income for farmers in general. As one manager put it, "I guess that I justify our existence (the cooperative) to some extent by the fact that we do have a fairly big impact on producers whether they use us or not. I don't necessarily like it, but I think part of the justification for our existence is that we do raise the general level of service to regular people (farmers not patronizing the cooperative) on this market and prices too."

Many managers expressed their belief that cooperatives should be run with business practices and principles just like non-cooperative businesses. And that cooperatives should not be thought of as some type of religion (that is, that they can do everything for the farmer) if they are to be competitive.

Servicing patrons was mentioned by several managers as the basic justification for the existence of their cooperative. "Cooperatives are uniquely structured to service farm people," said one manager. This comment summed up the belief of most managers.

In the selected core-sample, all managers agreed that one reason for the establishment of their organization was to provide essential supplies, services, and processing facilities. And managers interviewed believed that cooperative processing of raw farm products may be even more important in the future—especially if cooperatives are to become more market oriented.

A market orientation will require some changes on the production side. Cooperatives can no longer be just another outlet for farmers' products. A marketing orientation might dictate that only products of a certain kind and quality be accepted, as has occurred already in some marketing cooperatives. Such a policy suggests a selective or limited cooperative membership. This may raise some questions about cooperatives having the right to some special legal treatments, and whether this is within cooperative purposes.

Several managers were concerned about cooperatives not doing enough to protect the market outlets for their members. They believe that more work in marketing needs to be done, especially in the area of research and development.

A cooperative purpose that has become of increasing importance is that of maintaining the individual family farmer. Cooperative managers saw an increasing responsibility to protect the individual farmer. "The thing I'm concerned with," said one manager, "(is that) if we don't do something to get the farmer more for the product he is producing, we're going to have more and more of our farmers disappearing from the scene."

Managers said that cooperatives can serve individual farmers by providing quality inputs at competitive prices, research to increase productivity, alternative market outlets, and increased earnings from patronage refunds.

Another purpose of cooperatives is to provide competition in the business environment. Cooperative managers strongly agreed that their organizations were originally established to provide a competitive market environment. They all agreed that this is a purpose of agricultural cooperatives at the present time and for the future. However, some people question whether cooperatives are or should become large enough to compete at all stages of manufacturing and marketing.

The core-sample managers believed that cooperatives needed to maintain countervailing power in the following stages or areas: (1) In the first sales from farms, (2) in processing and finished farm products, (3) in the sale of farm supplies, and (4) in the availability and quantity of farm services. But this will require large amounts of capital and farmer commitment. Cooperatives may not be able to handle all these functions.

According to cooperative managers, farmers need the umbrella of cooperatives "...to keep the corporations honest." As a manager of a large regional said, "Members are afraid that if we aren't there as a competitive force they would suffer in the long run." But in many cases, farmers do not realize how important cooperatives are in maintaining a competitive environment.

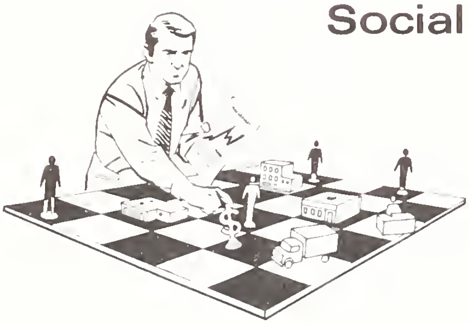
A final question of cooperative purpose is whether cooperatives should do more to represent individual members on political issues, especially those involving farm policy. A majority of the core-sample managers and most academic people believed that one cooperative purpose was to represent members on group issues. Other cooperative managers, however, did not see the importance of this function increasing in the future. On political issues, some cooperative managers believed it was the role of general farm organizations. Thus, their cooperative did not engage in political activities representing farmers.

Cooperative Advantages and Disadvantages

"A cooperative is a unique form of business enterprise" is an often heard statement. Many managers do not express this view. In many cases, managers do not like to concede that there is anything significantly different between cooperatives and other forms of business organizations. However, distinct differences do exist and can best be portrayed in terms of advantages and disadvantages of the cooperative form of business.

The main advantage of cooperatives operating according to basic cooperative principles and practices is that they are owned by their member-patrons; net margins are returned to members according to patronage; and as several managers formerly from non-cooperative businesses pointed out, there is greater concern for developing people—keeping them happy with their work. A disadvantage most often expressed by managers is the inability to acquire capital through the sale of voting stock.

Cooperative managers should capitalize on the advantages they have. Some cooperatives are tending more toward the non-cooperative form of business. If it is not in the best interest of these organizations to follow cooperative practices and principles and the advantages thereof, it may be in their best interest and the best interest of cooperatives in general to dissolve as a cooperative and to convert the organization to the non-cooperative form of business.



Social Responsibilities

Cooperatives, according to managers and academic personnel, have greater social responsibilities to farmers than non-cooperative agricultural organizations. But these people believed that cooperatives do not have any greater responsibilities for helping low income people in rural areas or for helping consumers in general. They believed that cooperative responsibilities are to increase the economic welfare of their members, whether they be small, average, or large farmers. Managers believe their cooperative has a greater responsibility to small farmers only if the farmers are of sufficient size to have a chance of succeeding.

Growth Issues

Growth has been a significant means by which businesses adjust to the environment. Growth is an American tradition. Yet, growth can distort the needs for other adjustments and can set the stage for great problems once growth stops. Cooperatives have grown, are growing, and, according to expectations expressed by managers, will continue to grow.

Various measures are used to indicate growth including: dollar sales, market share, memberships, assets, net worth, number of employees, number of new programs, or new produts, number of services provided, or number of physical units handled.

Changes in dollar sales were most often quoted by managers and are reported as one of the best measures of growth. Sales data show good sensitivity to economic conditions, are fairly easy to calculate, and are possibly more accurate than other measures. Care, however, should be taken in using sales as a measure for analyzing growth. Inflation and year-to-year fluctuations can often mask real growth.[22]

Growth is really an adjustment. Schermerhorn includes the concept of adjustment in his definition of growth.[23] He defines cooperative growth as successfully adjusting the operations of a cooperative in line with current business conditions. Such growth by adjustment holds that it is not necessary that to grow the cooperative increase its dollar volume of business, its physical assets, or even add new members. Growth, however, should be planned. It is not a matter of jumping into activities that appear to have great potential for success.

The Importance of Growth

Individual cooperative growth, as expressed by managers, is important for several reasons. *First*, growth provides many cooperatives with a means to implement strategy in meeting their objectives and goals. *Second*, growth often allows cooperatives ways to obtain organizational and operational efficiencies. And *third*, growth may be an effective method whereby a cooperative can maintain (survive) or improve its position in a changing environment in which it operates.

The trend in agriculture to larger farms with greater use of capital and technology will require growth of cooperatives to simply meet the current needs of farmers. Economic outlook indicates no relief from the price-cost squeeze in the future. Thus, many farmers will strive continually to increase their size to take advantage of economies of scale. One important tool for farmers is their cooperative. And as farmers require more, their cooperatives will have to grow to provide more.

---

[22]Joseph W. McGuire, *Factors Affecting the Growth of Manufacturing Firms*, Small Business Management Reseach Reports, University of Washington, March 1963.

[23]Richard W. Schermerhorn, *Feasibility Analysis—An Integral Part of Growth*, AE Series 102. Paper presented at the Annual Meeting of the Idaho Cooperative Council, Idaho Falls, November 1971.

Cooperative growth can provide ways to accomplish economies in handling, storing, processing, and distribution. It provides a means of reducing procurement and other per-unit service costs. It allows the coordination of such activities as supply and marketing. Through growth, duplication of services and other activities can be eliminated. Growth ultimately allows a cooperative to maintain or improve its market position.

How Cooperatives Can Grow

Cooperatives can grow by internal or external methods. Internal growth includes an adjustment of operations to meet current business conditions through construction of new facilities, increasing membership or business volume, or market development. External growth includes merger, consolidation, acquisition, multi-cooperative arrangements, or joint ventures.

Cooperatives in the study had built up a great deal of growth momentum. Some growth has been the result of cooperatives being in the right place at the right time. Good examples are cooperatives who were in crude oil and fertilizer production before the shortages occurred.

Managers in farm supply cooperatives were conscious of the need for integrative growth. But managers in many marketing cooperatives, especially first-handler cooperatives, were not integratively growth-minded. However, managers in some large, progressive, diversified marketing cooperatives were.

Most managers expressed a desire to grow by external means if possible. But managers in marketing cooperatives were more inclined to buy a competitor's business having existing brands and markets rather than to build a new marketing firm from the ground up. Philosophical differences, personality differences, and ties with general farm organizations were considered as serious constraints to growth through merger. Managers also expressed concern about how far the regulatory agencies would go in allowing cooperative mergers and acquisitions.

Principal Limits to Cooperative Growth

Cooperative managers studied saw available capital, the legal environment, and/or member commitment as the major constraints to future growth of their organizations. None of the managers believed growth of his organization would be constrained by management or directors. In general, much variability in management philosophy about growth was found.

The academic people saw the legal environment and available capital as limitations to cooperative growth. They also saw attitudes and proficiency of members, directors, and managers as possible limitations.

Many cooperatives rely on promotions to management positions from within. Their philosophy is that they would rather have someone who knows from experience their organization and their cooperative philosophy. Some managers believed that this aided employee morale. Of course certain disadvantages may develop from bringing in outside talents but "inbreeding" may limit growth.

Managerial salaries may also be a constraint to growth. But in general, the regional managers thought cooperatives were improving in this area. Managers also believed that level of management expertise at both the local and regional level has greatly improved over the past several years. However, the total compensation for cooperative chief executives in 1975 was only about 70 percent of their counterparts in non-cooperatives.

This was up slightly from the 67 percent level in 1971.[24]

The ability to acquire capital at reasonable cost is suggested by many financial experts as a constraint to growth for cooperatives. The problem stems from several sources. *First*, concern exists throughout much of the economy about a potential capital shortage. *Second*, cooperatives have traditionally had fewer alternative funds than non-cooperative firms. *Third*, cooperatives have relied almost solely on one source of funds—the Banks for Cooperatives—for their long-term borrowing needs. *Fourth*, a lack of financial expertise has existed in cooperatives. *Fifth*, and most important, members generally have been reluctant to invest adequate equity capital in their cooperatives, or officials underestimated members' unwillingness to provide such capital.

The majority of the core sample managers agreed that capital was one of the major constraints to future growth of their organization and to the future growth of cooperatives as a group. However, they did not see cooperatives in general having any more difficulty acquiring capital than would non-cooperative firms.

Another limitation to growth of cooperatives results from their unwillingness to compete for members with cooperatives in adjoining geographic areas. Almost all cooperatives fairly well confined their farm product marketing and sale of supplies to a particular geographic region. Several managers expressed their strategy as avoiding expansion of their membership area into territories of other cooperatives without first discussing the idea with the cooperatives in question.

Many managers believed that greater competition would exist among cooperatives in the future. Much will depend on selected strategies. If cooperatives are to continue growing through "integration and coordination," greater competition among them will be inevitable.

Consumers and the general public also affect the growth of cooperatives. "The consumer movement," stated one manager, "is taking on greater emphasis than in the past. We may have more to fear than in the past. They are prone to attack the agricultural cooperatives. It's mainly because they don't understand us."

Cooperatives do need to improve their image and public acceptance by identifying and making full use of their commonalities with consumers. In the core sample, all but one manager agreed to the above need. The response by academia also favored the need for cooperatives to work closer with consumers.

The vagueness of certain legal issues and the uncertainty of what regulators expect and how they react to specific issues were mentioned by managers as constraints to cooperative growth. As a result, managers were hesitant in some cases to expand certain areas of their operation.

Other constraints on cooperative growth faced by all businesses are regulations concerning health and safety of employees and the quality of the environment. Meeting these regulations in the future will require substantial capital input and greater commitment on the part of management, directors, and members. Cooperative managers expressed concern about this constraint.

Cooperative taxation policies also impact on growth. Certain tax legislation can directly affect the cash flow of a cooperative. Currently, all cooperatives whether agricultural or not operate under Subchapter T which allows a single tax on patronage refunds.

Loss of the Subchapter T status would seriously hurt most agricultural cooperatives. Many cooperative leaders believe that loss of the tax status would likely have a very damaging effect on the ability of cooperatives to accumulate capital for growth.

---

[24]Richard L. Larson, *1975 Chief Executive Compensation Study*, A report to the National Council of Farmer Cooperatives, Kearney: Management Consultants.

Evaluation of Three General Marketing Strategies

Farmers cannot accept cooperative growth by itself as an adequate strategy. They must select a strategy for their cooperative that is more explicit. Some cooperatives need to adjust more than their operations to be in line with current business conditions. Survival of each family farmer and his cooperative may depend on it.

Farmers through their cooperatives must turn to other strategies that "fit" into a continually changing environment; strategies that will better meet the changing needs of their larger farms and their increasing sophistication. Growth can then aid in carrying out any one of these more specific strategies.

Managers and others interviewed in this study thought that the survival of farmers and their cooperatives will lie mainly in the efficacy of three general farm product marketing strategies: (1) Pursuing integration and coordination, (2) bargaining collectively, and/or (3) maintaining and improving the open market.

Integration and Coordination

The integration and coordination strategy combines two or more stages of the production-processing-servicing-marketing-complex under one management. Integration in the vertical sense, forward or backward, is the undergirding of this general strategy. Basically, it is the cooperative version of current strategies used by most large-scale non-cooperative food firms.

The strategy is often expanded through other strategies to aid in coordination and market development. These include establishing price contracts with agricultural producers for raw products, forming multi-cooperative organizations to handle certain activities, venturing with other cooperatives or non-cooperatives to combine two or more stages of the agribusiness process, or owning the product through various non-owned marketing stages.

In 1975-76, some 4,658 cooperatives out of a total of 7,535 were primarily engaged in marketing farm products.[25] But in most cases these cooperatives purchased raw product from their members on the open market and resold it after little if any processing. Notable exceptions to this general statement indicate the ability of some cooperatives to rise above this level of operation and become vertically integrated. The trend is toward more and more integrated types of arrangements—not only in the forward integration of marketing raw farm products but also in integrating backward to production of raw materials necessary for farm inputs.

---

[25]H&S, Cooperative Management Division, ESCS, Preliminary.

Special emphasis in the study is given to farm product marketing as performed by diversified regional supply/marketing cooperatives. Generally, these cooperatives have not been successful in tying their growers into a vertically integrated structure, although success has been achieved in some cases. The diversified membership as well as the traditionalism of commodity groups such as cattle and grains has plagued most attempts.

Typically the supply/marketing cooperative started out in supplies before initiating a marketing thrust. The marketing effort often begins at a disadvantage because of management's primary orientation to selling farm supplies. Volatile margins in the farm product marketing area versus relatively stable and higher margins in the supply area make this approach understandable. However, often the financially strong supply cooperative is the only organizational structure available for initiating new cooperative marketing thrusts. Supply cooperatives may, in fact, have a responsibility to serve the farmer by actively developing improved cooperative marketing systems.

Various organizational structures have been developed by supply/marketing cooperatives to coordinate the selling of farm supplies with the marketing of farm products. They are arranged in the study in a six-part continuum from no coordination to full coordination of marketing and supply activities. Managers saw good rationale for coordination of supply and marketing activities but also believed that cooperatives have failed to achieve this coordination.

The integration and coordination strategy, if it is to be successfully implemented, must fulfill several requirements. The *first* is the requirement that the cooperative have full membership and board support.

Second, producers must be committed to the cooperative. This involves marketing their products or purchasing their inputs from the cooperative as well as supplying it with capital. Cooperative managers who have the commitment of members to deliver their raw products to the cooperative can market the product in a more timely manner, can sell more of the product in advance of harvest, can make long-term commitments, and can make more efficient use of facilities, labor, and transportation equipment.

Third, a sophisticated set of managerial skills is required, especially the ability to market a product rather than simply to sell what is delivered. In other words, farmers produce the type and quantity of product desired by consumers. Crucial to this market orientation are a specialized market information system, long-range planning, research, and development.

Fourth, efforts must be made by management to maintain and improve member relations. As integration moves away from the farming operation, the activities of the cooperative become more and more unfamiliar to the farmer members.

Fifth, knowledge of the available product markets at the newly integrated level is necessary. The cooperative may be better off not integrating forward or backward if these markets prove unavailable or difficult to enter.

A number of *advantages* exist for the integration and coordination strategy. In integrating backward, risks are reduced in raw material acquisition and the cost of acquisition is usually less. Forward integration allows coordination under one management giving greater certainty of market outlet and control. Value is added to the product and profits per unit are generally increased. Farmers become more market oriented themselves as their cooperative learns more about product marketing and relays this information to its members. The setting for new technology or development and the opportunity for direct promotion of farm products are greatly improved.

Of course, *disadvantages* also exist. The high cost of needed facilities may be the most significant. Also, if farmers commit their raw products to their cooperative, they will no longer be able to make individual marketing decisions during harvest season and may lose their option of selling on the open market. A further disadvantage is that pricing points for the different stages of the integrated marketing process tend to be eliminated making it difficult to monitor the integrated operations. Vertical growth may subject the cooperative to some erosion of public support because of the increased visibility. However, this visibility may be less than with horizontal growth.

The integration and coordination strategy can bring attractions such as increased profits and protected markets, and allow the farmer a hand in the control of the destiny of agriculture. Yet the study found that this strategy is not likely to be initiated unless marketing or supply channels are being closed or pricing mechanisms are deteriorating.

Farmers and their existing cooperatives need to break with this tradition of adjusting their marketing structures to deteriorating conditions. They should be at the forefront in predicting future changes in the agribusiness and marketing environment and in making planning adjustments that will take full advantage of these opportunities. Only a few of today's cooperatives have people that have reached this level of thinking.

Bargaining

Bargaining is basically the strategy of cooperative market power. It is the policy base for 'self-help' programs for maintaining the family farm unit, protected by a strong power-based bargaining organization. Implied here is a set of strategies that call forth organized group action to effect market or countervailing power, usually with public sanction and often built on a commodity orientation.

Bargaining is an alternative strategy which producers through group action can use to help protect their economic welfare. In agriculture, collective bargaining is a process whereby an association (agency) of voluntary producers of a particular raw commodity negotiates in an orderly fashion with handlers or processors to arrive at prices and other terms of trade that are in the best interest of those whom the agency represents.

Currently, about 230 active producer associations are involved in bargaining with about 100 of those representing dairy producers. The other associations are mainly concerned with fruit or vegetable growers. The main concern in the bargaining strategy is to establish a countervailing power at the pricing point of the raw product. Attempts are not usually made to add value to the product. Through collective action, farmers want to be able to obtain a value for their product that is consistent with supply and demand conditions rather than the buyers' wishes.

Several managers interviewed in the study recognized that bargaining was a way for farmers to establish equitable prices and terms of trade. They believed that for some commodities, bargaining was needed because of the trends in agriculture toward contractual production and vertical integration, and because of increasing concentration in the food industry.

A few managers expressed the need for family farmers to maintain some control in the marketplace and to have a source of information concerning supply, demand, and prices. The number of buyers is diminishing and those buyers remaining are becoming larger and more impersonal to the farmers with whom they do business. Bargaining was recognized as a strategy that could help farmers maintain some control of the market place as well as an information source.

Several managers believed that the bargaining strategy should be used in conjunction with the integration and coordination strategy. Thus, a processing cooperative could leave price establishment up to the bargaining association and non-cooperative buyers. In this manner a cooperative manager need not worry about complaints from members or competitors.

A number of requirements need to be considered if agricultural producers are to pursue successfully the bargaining strategy. *First*, and perhaps the most important is enabling legislation that will give farmers certain rights such as exclusive agency bargaining. *Second*, association members must be committed to bargaining. *Third*, some type of production control is required if commodity surpluses and price fluctuations are to be avoided. *Fourth*, the bargaining agency must receive recognition of the buyers. *Fifth*, collective bargaining requires good leadership—people that know the art of negotiation and compromise. And *sixth*, information regarding all aspects of the commodity should be obtained and shared among buyers and sellers.

Bargaining as a general overall strategy for cooperatives was not currently being given much thought by most managers of cooperatives studied. With the exception of the managers of specialized bargaining associations, managers said that they did not expect it to be a major strategy in the next few years.

Yet, bargaining is vitally important to selected producers and specialized producer groups. Trends toward increased market concentration suggest bargaining may become more of an issue.

Several advantages can be claimed for the bargaining strategy. *First*, it is a rather traditional way for farmers to offset middlemen power. *Second*, it may be the most feasible means to guarantee a market outlet. *Third*, it helps assure farmers that their products are receiving an equitable consumer price. *Fourth*, it can help to assure a functioning price-making system. *Fifth*, it is an effective strategy to guarantee supplies to cooperatives with facilities of their own. And *sixth*, the bargaining strategy may be a way to work toward either of the other two major strategies discussed here.

Several disadvantages of the bargaining strategy also exist. *First*, it may not be a feasible strategy for many individual cooperatives, nor for the cooperative movement overall. *Second*, bargaining needs a backup system of support in plants, marketing outlets, or surplus disposal plans. *Third*, bargaining success is difficult to document. *Fourth*, substantially strengthened bargaining could face legal constraints. *Fifth*, any large-scale bargaining effort involving several cooperatives raises a question of who will do the bargaining.

Collective bargaining in agriculture must be kept under study by cooperative leaders. Economic and political climates affect the interest in such an approach. Many issues—such as adapting to open-market deficiencies, expanding market needs for joint selling arrangements, price establishment techniques, supply coordination, and coordination of general farm organization functions with commodity functions make consideration of the bargaining strategy relevant.

If bargaining is to gain in significance for farmers, managers of operating cooperatives will need to work closer with bargaining groups and help them obtain legislative support. It may not be necessary for operating cooperatives to get into bargaining themselves, but they must realize its importance and be willing to work with farmers to assess the general bargaining strategy.

Open Market

The concepts underlying this strategy are traditional to cooperatives and depend heavily on the open competitive market with open information and a large number of buyers and sellers. The strategy relies on the existence of an open market pricing point between sellers and buyers of raw farm products. The strategy requires that action be taken to keep the market alive and trading volume heavy enough to reflect accurately the market value of the product moving between two marketing stages. Unlike the two previous strategies this strategy allows the cooperative very little influence over price.

In many commodities the open market is disappearing. The trend in some commodities is for buyers to establish contracts with sellers for price and terms of sale. In other cases, integration of two levels of the marketing process simply eliminates large volumes of product from channels. Thus, some so-called open markets remaining are often characterized by low volume, lack of competition among buyers, inaccessibility to traders, inadequate information, and high potential for price manipulation.

Several approaches can be taken to maintain or improve an open market: (1) The flow of market information to participants can be increased; (2) grading standards can be improved, allowing more universal flow of information and product; (3) Government regulations can be established requiring all or a certain percentage of particular commodities to be sold in an open market; and (4) an electronic exchange mechanism can be established. The open market can be achieved most effectively through a combination of two or more of these approaches.

The electronic exchange mechanism contains elements of all the above approaches and may be the most logical and direct approach to take in maintaining some type of open market.

The conditions most conducive to use of an electronic exchange mechanism are: (1) the product must be homogeneous so that it can be sorted into standard grades; (2) the product should maintain its quality; (3) the product must be available in large enough quantity so that trading can be done on a frequent basis; and (4) competition among traders must be desired.

Certain advantages are available from a workable electronic auction exchange: (1) Price more accurately reflects supply and demand conditions; (2) the physical movement of the product is more efficient; (3) little or no financial commitment is needed by growers; (4) the grower is relatively free to sell when he wants and to take his own market price risks; and (5) established prices are more reflective of quality and grades of the product.

Problems with an electronic auction exchange are: (1) It requires adequate volume and commitment by sellers; (2) Government support for grading or legislation may be needed to make the system operational; (3) the additional market information may be used more advantageously by buyers; and (4) inferior product grades end up being sold on the auction in cases where the best product is moved through other market mechanisms.

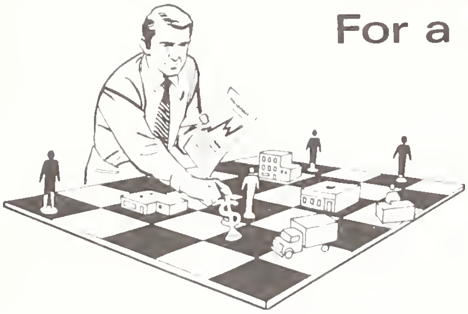
In the United States, the most popular approach for an electronic exchange system is the teleauction system. Thus far, interest has been mostly confined to market lambs and feeder pigs, representing an important market alternative in those few markets where they have been instituted. In all cases these markets have been voluntary, unlike the much larger teletype auction operated for hogs in Ontario, Canada. The latter market is set up under Provincial law requiring all hogs to be sold through the system. A Provincial marketing board is in charge of the market's operation.

Both the U.S. and the Canadian systems and for that matter, any electronic exchange mechanism, require the existence of a grading system. This eliminates the need for onsite inspection and thus sets the stage for bringing in outside buyers not normally able to bid conveniently in the local market.

The open market strategy played little part in the future plans of large integrated cooperatives. Even those cooperatives relying on the open market concept (such as grain marketing cooperatives) appeared unconcerned about the future continuation of these open markets. Two very large groups, grain farmers and livestock producers, should be especially concerned about the future viability of open competitive markets.

In situations where vertical integration was not feasible, managers and academic personnel in the core samples saw cooperatives as having an important role in getting member commitments through marketing agreements and in pushing for government legislation to maintain open markets. Neither group believed it important to encourage regulations against corporate integrators.

In an economic system where the open market is disappearing, farmers through their cooperatives have an opportunity to maintain or improve their markets. The open market concept seems especially attractive from the standpoint of society. The electronic exchange mechanism is seen in the study both as a special opportunity for cooperatives to take advantage of their patron ties and as a means for cooperatives to fulfill an obligation to keep agricultural markets open and competitive. If cooperatives do not take the responsibility, farmers may end up having little to say about how they market their products.



Organizational Approaches For a Marketing Strategy

Cooperatives can use various organizational approaches to accomplish one or more of the general marketing strategies discussed in the previous section. They can be put together in a variety of ways. In fact, their success may depend as much on the way the particular strategy is designed as on the choice among the three concepts.

General strategies can use one or more of these organizational approaches: horizontal coordination, diversification (and conglomeration), multi-cooperative organizations, and joint ventures. Choice of particular approaches depends upon available resources, how the resources are to be used, the social and competitive environment, and the benefits desired.

Horizontal Coordination

Horizontal coordination through external means involves uniting under common ownership two or more businesses engaged in the same level of production or sale of final product. It enlarges the basic function of the firm without changing that function.

Horizontal coordination through internal means also consists of expansion of the same production or marketing level. The difference is that growth occurs solely within a single firm through construction of new facilities or provision of new services to serve the industry at the same marketing level.

Growth in the horizontal dimension is closely associated with, and is often essential for vertical or diversified growth. The history of cooperative growth has clearly indicated this close relationship. The federation that exists in some regionals and interregionals has been a primary means of horizontal organization for both the local and regional cooperatives. A certain amount of horizontal growth is often an initial step before the more advanced integration strategy is achieved.

While cooperative horizontal growth can take a variety of forms, one prevalent form of horizontal growth where historical data exist is the merger.[26] During 1960-69, Swanson found that out of a total of 787 cooperative reorganizations, 666 or 85 percent involved horizontal growth.[27] Statistics are not available for the 1970's but indications are that the merger movement had slowed from the important merger period of the 1960's.

In the future, cooperative merger activity is expected to continue at a high level. Many cooperatives will find it necessary to make new capital investments because of environmental and health and safety regulations. To achieve economies of size and a balance of power for the farmer, many cooperatives may find it essential to group together.

The current political climate, with increased public concern over cooperative size,

---

[26] The word merger is used to include consolidations and acquisitions.

[27] Bruce Swanson, *Pre- and Post-Merger Characteristics of Agricultural Cooperative Reorganizations and Implications for Planning, Financing, and Growth*, Unpublished Ph.D. dissertation, Texas A&M University, College Station, December 1975.

suggests that future attempts at cooperative merger will be closely monitored. Cooperatives need alternative organizational approaches that provide some of the benefits of merger without involving an actual combination of business entities.

For example, local cooperatives have formed federated regionals to provide a level of services that they could not possibly provide on their own. A newer level of coordination, the interregional, is currently receiving attention as a means of bringing nonmerger coordination among regionals.

Farmers through their cooperatives have public sanction to coordinate some of their efforts in marketing. These sanctions include "marketing agencies in common" as specified in Section 1 of the Capper-Volstead Act, and the exchange of firm information allowed in the Agricultural Marketing Act of 1926.

Diversification (and Conglomeration)

Diversification can be defined as a departure from current product or service lines and present market structure. It is often an organizational approach for a firm that has selected the integration and coordination strategy.

Cooperatives following any one of the three general marketing strategies may be faced eventually with the diversification question. This often arises as the growth of members generates a need for additional products or services, either because the service is not being provided or because it is being provided by other firms in an unsatisfactory manner. Diversification can also help the single commodity cooperative achieve a balanced risk exposure.

Cooperatives that choose diversification must also recognize the risk of neglecting their major business strengths or of neglecting the agricultural base of their members. An especially difficult problem with diversification is maintaining member interest and control in a cooperative engaged in widely varying businesses organized for differing producer interests.

Cooperative managers studied clearly accepted their role of providing diversified activities that were restricted to agriculturally related fields. It was also clear from the survey that cooperative managers did not see the necessity for getting into nonagricultural fields to compete with conglomerate organizations. Many managers believed the range of activities left open to cooperatives within the agricultural area was quite broad.

The study gave special emphasis to farm product marketing as performed by diversified regional supply and marketing cooperatives. Generally these cooperatives have not been successful in tying their growers into a vertically integrated structure, although notable exceptions exist. Their diversified membership as well as the traditionalism of such commodity groups as cattle and grains has plagued their efforts.

Experts suggest that the diversified supply/marketing cooperative may eventually offer an even greater range of services. Such full service centers would supply all producer input needs, product marketing needs, many financial needs, and some special services such as travel arrangements and insurance. The cooperative that has achieved this level of diversification could also achieve a more balanced risk exposure.

Specialized bargaining cooperatives may use the diversification strategy to gain economies of scale by representing growers for multiple commodities or by providing members unrelated services not presently offered. Cooperatives pursuing the open market strategy also seek the diversification strategy for economies of scale and to provide additional services to members.

Multi-Cooperative Organizations

A multi-cooperative organization may be described as an association of two or more cooperatives organized for the purpose of conducting specific functions, but with the identities of participants remaining apart from their participation in the venture. Any organization of this type would fall into two groups—commercial and noncommercial.

Individual cooperatives have long recognized that some things can be better accomplished through joint arrangements than by individual efforts. However, only recently have joint arrangements become important in the commercial area.

Many examples of multi-cooperative organizations i.e., federations of cooperatives, exist. Regional (such as Farmers Union Grain Terminal Association) and the interregional (such as Farmers Export Company) marketing cooperatives are good examples. Multi-cooperative organizations can be successfully used in all three general marketing strategies and could be used to much greater extent than they are being used at the present time.

Possible *disadvantages* or *constraints* to success of such new organizations must be considered.

1. Managers and directors must recognize when it is economically beneficial to join multi-cooperative efforts and they must be willing to compromise for the benefit of all. Some managers may need to give up their position or political power when their organization joins with other cooperatives.
2. Continuous cooperation and communication are required between members and between management and boards of directors.
3. Participants must accept the fact that benefits are not always equally divided but that farmers in general will be better off. In some cases, cooperatives will need to share their geographic advantages with other cooperatives.
4. Conflicts between cooperative joint efforts and the general farm organizations must be kept to a minimum.
5. A consensus must be reached on the direction and speed the organization is to grow.
6. Participants must have mutual trust and confidence in the arrangement.
7. Adequate capital for the multi-cooperative venture must be available. Capital used must not create a financial strain that limits the ability of member cooperatives to perform their primary functions.

Special *advantages* accrue from multi-cooperative organizations.

1. They provide a means to obtain economies of scale.
2. They help eliminate duplication of resources and services.
3. Greater amounts of capital can usually be obtained with less risk to the participants.
4. They allow member cooperatives to make fuller use of their present resources.
5. They are a means to integrated marketing or a way for farmers to become more basic in obtaining raw materials.
6. Multi-cooperative organizations can also help provide more countervailing power for farmers.

Cooperative managers indicated that energy discovery, basic fertilizer production, and foreign trade were functions that could best be performed through interregional cooperation. Little interest however, was shown in coordinating sales and providing bargaining and general information through joint interregional efforts.

Cooperatives have the legal prerogative to assist their market efforts, by forming "marketing agencies in common." Ample opportunity exists to take advantage of this right.

Examples include livestock marketing, grain exports, brand and private labeling, and marketing services. So far, farmers have not often exercised this privilege although interest in the idea is increasing.

The cooperative business concept suggests that cooperatives should share much common ground. Yet, cooperative managers were not explicit in expressing what they do have in common such as their reasons for being, legal sanctions, the need to educate members and the general public, and their access to Banks for Cooperatives. A majority of the academic people believed that cooperatives do not have substantial commonality at the present time, but that over the next decade, this will increase.

Knowledge of areas where cooperatives have substantial shared interests is important. It provides a basis for working together, opening up communications among cooperative managers, directors, and cooperatives. By working together cooperatives can better fulfill their reasons for being. Cooperatives may want to do some joint planning, specifically to define and make operational their joint concerns.

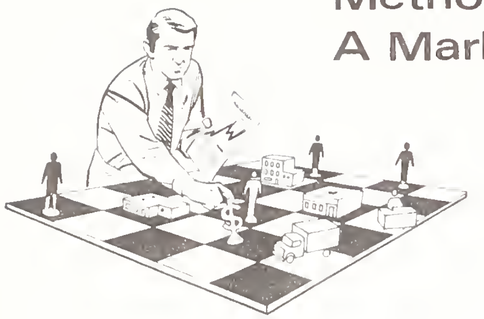
Joint Ventures

The joint venture may be defined in the same way as a multi-cooperative organization but with allowance for non-cooperative participants. For example, the joint venture can be used by cooperatives searching for a method of increasing producer participation in integrated food marketing. A cooperative might wish to arrange sale of its products through another firm with well-established market outlets and managerial expertise in consumer product marketing. Agway Inc., Curtice-Burns, and Pro-Fac Cooperative, Inc., all headquartered in New York State, provide an example of a joint venture.

In the bargaining strategy the use of joint ventures is also possible. Examples include joint ventures for sharing information or for arrangements with a processor to process a surplus commodity.

In the open market strategy, the joint venture is useful for functions that can aid raw product merchandising. Examples would include the interregional cooperatives involved in transporting grain.

Previous joint venture difficulties, especially between cooperative and non-cooperative firms, have emphasized the need for joint venture participants to screen out as many areas of potential conflict as possible ahead of time. Even so, working relationships between cooperatives and non-cooperative firms have proved difficult. Cooperative leaders would be wise to consider opportunities for multi-cooperative alliances among themselves before forming a joint venture with a non-cooperative organization.



Methods to Facilitate A Marketing Strategy

The future of agricultural cooperatives depends greatly on the ability of farmers to: (1) Protect, maintain, or improve enabling legislation; (2) develop to the fullest extent the general marketing strategy most applicable; and (3) enhance the organizational strategies that will allow the most efficient method of operation.

Several strategies facilitate the achievement of these three points. No classification of these facilitating methods is complete, but five major groupings are used here: (1) Acquiring Government sanction such as the Capper-Volstead Act, marketing orders, and bargaining legislation; (2) using information systems; (3) enhancing domestic demand; (4) expanding foreign trade; and (5) expanding financial sources.

Sometimes these methods are not under the control of the individual cooperative and may require group action. Such action may be joint by several cooperatives, or it may be instigated by the public-at-large. Most of these arrangements are external to the firm, but provide a basic process for the firm to adapt to its environment.

Acquiring Government Sanction

One of the major issues facing farmers and their cooperative is acquiring or in some cases maintaining Government sanction needed to allow them to improve their own economic welfare. Legal prerogatives provide farmers an opportunity through group action to do some things to help themselves without being in violation of the antitrust laws. However, as is well known, legislation such as the Capper-Volstead Act and the Agricultural Marketing Act of 1937 is being questioned. Questions are being asked about the intent, use, and purpose of the legislation.

The Capper-Volstead Act

This Act provides enabling legislation for agricultural producers to jointly market their products for their own mutual benefit provided they conform to specified requirements. The Act provides that farmers who organize and operate cooperative associations are not doing so in violation of the antitrust laws. Thus, without this type of Government sanction, farmers could not legally cooperate in the marketing of their products.

Several things have brought about a change in the political climate surrounding cooperatives and the Capper-Volstead Act: (1) Consumers and public officials are questioning the intent of the Act because of higher food prices and larger cooperatives; (2) actions by a few dairy cooperatives over the past decade have hurt the image of cooperatives in general; and (3) studies by various agencies and remarks by some officials have focused increased attention on cooperatives and the Capper-Volstead Act.

Cooperative managers in the study were concerned about the pressures for changes in the Act. A few cooperative organizations had given thought to converting their cooperative to some type of stock plan or corporate form of business if the Capper-Volstead Act were ever repealed. But from an operational standpoint, none of the managers believed the Act gave cooperatives important advantages over their competitors that might possibly lead to such action.

The possible changes about which managers were most concerned were: (1) Transfer of Section 2 of the Act out of USDA and into the Justice Department, and (2) the deletion from the Act of the right to have "marketing agencies in common." The interpretation of other issues associated with the Act is unclear. This includes who is a "producer," what constitutes "democratic control," and what is 'undue price enhancement.' Managers more than academicians appeared to be in favor of having these issues resolved by policymakers.

Collective Bargaining

The Capper-Volstead Act also provides enabling legislation for agricultural producers to bargain with buyers and handlers. However, if farmers are to use the bargaining strategy aggressively, Government sanctions will probably need to be strengthened. Growing concentration in the food industry makes the power struggle more intense and negotiation of terms of sale less automatic. Production and sale of agricultural products under contracts place producers at some disadvantage. Farmers believe they deserve Government sanction.

Agricultural producers can collectively bargain with buyers or handlers without violating the antitrust laws. However, agricultural bargaining is undergoing many challenges: (1) The status of bargaining associations under the antitrust laws has been questioned by some government agencies and special interest groups; (2) Federal and State legislation needed to improve the agricultural bargaining process is moving slowly; and (3) farmers lack bargaining support from other interests. Most farmers and cooperative managers not involved with bargaining are failing to support farmers who need such a price establishment mechanism.

Marketing Orders

Federal marketing orders are Government-sanctioned programs for agricultural producers that came into being under the Agricultural Marketing Act of 1937. Many State marketing orders, often patterned after Federal orders, also exist. It is often stated that the principal purpose of the Federal act is to provide orderly marketing and to stabilize producer income. Marketing orders also provide for promotion, research, setting uniform grade standards, inspection, disease control, market information, and similar activities which some cooperatives are not able to provide.

Marketing orders are initiated through unified action on the part of producers of a certain commodity. Although many people associate marketing orders with cooperatives, marketing orders can be initiated and carried out with or without cooperatives. However, cooperatives and marketing orders can complement each other. Cooperatives can be catalytic in initiation and operation of marketing orders.

Many cooperative managers not directly affected by marketing orders are uninformed about them. Other managers who are affected by marketing orders are concerned about consumer pressures to change or eliminate them. The general belief among this lat-

ter group of managers was that consumers do not understand the purpose of marketing orders.

The major issues concerning marketing orders are: (1) The use of volume or supply control regulations; (2) consumer representation on the marketing order boards; and (3) the concern that marketing orders give cooperatives (mainly in dairy) a monopolistic advantage.

Questions do exist about the future of marketing orders. Will future producers without formal cooperative effort be able to maintain the Government sanction needed for successful orderly marketing? Should cooperatives, on the behalf of farmers in general, place greater emphasis on the use of marketing order programs? Can marketing orders accommodate both producer and consumer interests in food? Can orders be kept operational, particularly with regard to needed timely adjustments to reflect local market conditions?

Marketing Boards

A marketing board may be described as a producer-oriented authority established by Government legislation, with various legal powers of compulsion over producers and other market participants for a particular agricultural commodity. Boards are given authority to carry out specific marketing goals and objectives which are in the best interest of the producers.[28]

The marketing board is another alternative for directing the marketing of agricultural products. Producer marketing boards are prevalent in Australia, Canada, New Zealand, and the United Kingdom. The United States has never adopted the use of national producer marketing boards.

Some researchers do foresee possible uses of producer marketing boards in the United States for certain agricultural products. They believe such boards might improve information available to producers and the public and benefit the balance of power between producers and buyers.

Marketing boards typically accommodate the policy interests of a wide range of public and private organizations. Over the past few years, the major criticism of U.S. marketing institutions has been the lack of consumer representatives with a voice in the agricultural marketing process. This consumer issue may cause the marketing board strategy to be given wider consideration.

Taxation

Cooperative taxation has been associated with much controversy, misunderstanding, and confusion. Two major tax code provisions affect cooperatives—Subchapter T and Section 521.

Subchapter T is the essential feature of the cooperative tax treatment and applies to '*any* corporation operating on a cooperative basis.' *No* requirement holds that the corporation must deal in agricultural products. Basically the law says cooperatives are not subject to tax at the corporate level on net margins derived from business with patrons if these margins are distributed or allocated to patrons on the basis of patronage and if they

[28] Martin E. Abel and Michele M. Veeman, "Marketing Boards," in *Marketing Alternatives for Agriculture; Is There a Better Way?*, Senate Committee on Agriculture and Forestry, U.S. Government Printing Office, Washington, D.C., 1976.

follow a set of comprehensive rules.[29] The concept is one of a single tax on earnings—payable currently either at the patron or the cooperative level. The belief is that the cooperative itself does not realize a profit from its operations, but is simply an extension of the member's farm business. In this sense, the tax status is similar to that of a partnership.

Section 521 is generating the most interest currently because of strict qualifying requirements. Cooperatives must adhere to a fairly strict set of regulations affecting certain financial practices and their business with members, nonmembers, or nonproducers.

In return, Section 521 cooperatives are not taxed on income received from nonpatronage sources if it is distributed on a patronage basis or on dividends paid on capital stock. As a result, cooperatives may incur a low (often zero) Federal tax burden. This allows a healthier cash flow, larger cash patronage refunds, and faster growth of member equity.

In 1976, about 57 percent of cooperatives did not have Section 521 status.[30] Most managers of large regional cooperatives surveyed saw member patronage requirements, costly recordkeeping, and the often high legal cost necessary to prepare for Internal Revenue Service audits as not worth the associated tax savings.

In those cooperatives still maintaining this status, managers pointed out not only the tax savings, but also the fact that the Section 521 regulations provided assurance that the primary emphasis of the cooperative would remain on serving the member rather than the nonmember. Exemption from SEC requirements was not mentioned explicitly by managers in the study, but certainly is also a factor in maintaining the Section 521 status.

Some cooperatives are currently undergoing lengthy investigations of their past tax returns. The Internal Revenue Service has, through a series of interpretations of the tax statutes, further narrowed the restrictions for cooperatives wishing to qualify for the cooperative tax treatment, even to the point of defining what a true cooperative is and how it should operate. Rulings have touched on the following areas: 'operating on a cooperative basis,' 'the look through principle,' the definition of 'current business patrons,' and 'cooperative losses.'

In the near future, agricultural cooperatives are likely to face their most serious tax threat in the field of tax administration as the Internal Revenue Service closely scrutinizes cooperative returns and deals out increasingly strict interpretations of the tax code.

Using Information Systems

Agricultural marketing is moving away from the open market system as practiced in the typical auction market or centralized wholesale market of the past. Price-making points generating market information have declined; firm secrecy about information has increased; and efficiency of public information systems has declined. Yet, the marketing information necessary to operate in today's highly volatile commodity markets is constantly increasing.

Individual farmers with access to the limited amount of public marketing information available today often turn to their marketing cooperative, expecting it to improve available information sources or to have access to the marketing information required to intelligently market crops.

---

[29]Lee Schrader and Ray Goldberg, *Farmers' Cooperatives and Federal Income Taxes*, Ballinger Publishing Co., Cambridge, Mass., 1975, p. 17.

[30]Nelda Griffin, "Federal Income Tax Status of Farmer Cooperatives," *The Cooperative Accountant*, Vol. XXXI, No. 3, Fall 1978, p. 51.

Managers in cooperatives studied did not believe they had a substantial problem acquiring or utilizing market information nor did they appear concerned about their abilities in the area when compared with their suppliers, competitors, or buyers. For those cooperatives operating in markets dominated by much larger non-cooperative firms, this belief appeared somewhat naive. Usually the proprietary concern has access to much better information sources and employs larger, more highly trained analytical staffs.

Cooperatives did not appear to be thinking much about multi-cooperative efforts in the information area. Their attitude was similar to what might be expected of a non-cooperative concern, i.e., development of internal systems, reliance on Government data, and use of industry trade associations. Of course, cooperatives must use these information sources just as non-cooperatives do, but cooperatives also have a special opportunity in their right to form a marketing agency in common for exchange of information. Cooperatives could benefit by giving the concept more attention than they have in the past.

Enhancing Domestic Demand

Most cooperative managers in the study, as well as university experts, did not believe cooperatives as a group were as well prepared for promoting branded products as non-cooperative firms. Agricultural producers need to ask themselves whether they can afford to allow responsibility for effective promotional activities to remain in the hands of non-cooperative firms.

Through promoting branded products, a cooperative can maximize returns by coordinating its integrated sales effort with such marketing variables as quantity and quality marketed, product pricing, market timing, and packaging. If the product can be sufficiently differentiated, then results of promotional efforts can be captured for cooperative members, although the cooperative will be susceptible to its lack of control over raw material supply.

Cooperatives having their own advertising programs are almost always organized for the integration and coordination strategy. Cooperatives are common users of the private label, an approach using minimal promotional budgets required only at the wholesale level. Others use regional branding, capitalizing on the regional nature of their production base and their familiarity with regional markets, and avoiding the significant risk of national brand advertising.

Cooperatives pursuing the bargaining or open market strategy are usually selling a nondifferentiated product. The results of product promotion activities can rarely be captured for the individual cooperative. As a result, bargaining associations often band together to promote the commodity jointly at the consumer level. However, nonintegrated marketing cooperatives will often promote the commodity through industry trade groups made up of both non-cooperative and cooperative firms.

The few cooperatives with a well established label have generally not seemed willing to share or franchise their label with other cooperatives. Yet, examples exist of cooperatives working together in multi-cooperative sales agencies. Some are set up to market products of several cooperatives using the brand name of each individual cooperative. Others have established new brand names to be marketed through a joint sales agency. These approaches merit greater attention than has been demonstrated so far.

Cooperatives spend only a small part of total expenditures for agricultural product promotion. The bulk of the promotion money is spent on nonbranded products through producer check-off programs and State and Federal marketing orders. But activities such as these have no merchandising control over the product and as a result will not neces-

sarily guarantee increased producer returns especially if producers respond too readily with increased production.

In the product development area, respondents unanimously agreed that non-cooperative firms were well prepared for developing new products from raw farm products. They were unable to come to a consensus on whether cooperatives themselves were well prepared in this area. Yet, most cooperative managers did agree a bright future lies ahead for new uses of farm produced raw materials.

Expanding Foreign Trade

Foreign trade of agricultural products has become of great importance to U.S. farmers and to the U.S. economy. Cooperatives who can expand farm markets through increased farm exports can help improve farm income and decrease dependence of farmers on Government farm programs.

The surplus of U.S. farm commodities along with the dominant position of many U.S. commodities in world trade puts commodity prices in an international pricing arena. Prices are currently influenced by crop harvests, income levels, and changing preferences in foreign countries. Raw product prices have now become more volatile and farmers' incomes are greatly affected by what is happening worldwide. Cooperative strategies must account for these new market forces.

A majority of the managers and most academic people believed that except for some specific products, U.S. cooperatives are inadequately organized to be a major factor in foreign trade policy. Part of the problem is the conflict in economic interests among farmers. Farmers need to become more influential through their cooperatives and take a more unified approach to foreign trade policy.

Cooperatives have been encouraged to do more in foreign trade through joint efforts. Cooperatives could coordinate their efforts in the use of transportation equipment, port facilities, and foreign sales offices. Some good examples already exist. It appears that the advantages of joint interregional organizations for foreign trade would greatly outweigh the disadvantages. The decision to form or join a group effort may depend, however, on such things as equitability of the arrangement, and the individual participant's existing comparative advantages.

If farmers and their cooperatives are to become more effective in foreign trade, they need to develop commitment between the grower and the local, the regional, and the interregional cooperatives. Foreign sales efforts also require a commitment to serving foreign customers.

Expanding Financial Sources

Capital availability is often mentioned as a possible constraint to the future growth of cooperatives. But cooperative managers believed that capital availability would be no more a problem to their organization than to non-cooperatives. In fact, cooperatives, because of the Banks for Cooperatives system, may have an advantage in capital acquisition in periods of tight money.

The Banks for Cooperatives system was stressed more than any other factor as the single most important operating advantage that cooperatives have over non-cooperative firms. Financial officers in the large regional cooperatives were especially concerned, however, about the Banks' lending limits and the ability of the cooperative banking system to keep pace with their growth. Some large regional cooperatives were currently seek-

ing alternative sources of credit, including tax free bonds, commercial banks, and nonpatronage refund securities.

Respondents believed the Banks for Cooperatives were progressive with respect to their credit requirements and financing new ventures, but no consensus was reached on the tendency for the Banks to pursue new financial techniques. One problem expressed quite often by managers was that the Banks were not providing adequate services, especially in long-range financial planning and foreign sales assistance. Some believed it was logical for commercial banks to provide these services and this was often the primary reason for borrowing from commercial banks.

A recent Task Force Report on Cooperative Finance, led by the Farm Credit Administration, analyzed present and future financial requirements of large cooperatives. The Task Force studied Banks for Cooperatives' lending limits and recommended they be maintained. Although these limits will grow as the net worths of the banks grow, the recommendation does imply that the larger cooperatives cannot expect the cooperative bank system to grow fast enough to accommodate all their lending needs.

However, the Task Force Report made a series of recommendations designed to help the Banks for Cooperatives assist large cooperatives obtain supplemental financing. Cooperatives at or nearing the credit limit have responsibility to begin upgrading the expertise of their financial staff, developing long-range financial plans, and acquainting their boards with the need to seek alternative sources of capital if they expect to receive at reasonable cost the capital necessary for their chosen rate of growth. Some cooperatives have already started along this path.

Commercial banks, although a relatively small source of debt to cooperatives, can in many cases offer cooperatives a wider range of services than can the Banks for Cooperatives. The availability of these services along with the need to reduce reliance on borrowing from the Banks for Cooperatives may stimulate use of commercial banks in the future. Commercial banks are now actively seeking the loan business of large, financially sound cooperatives. In so doing, they are becoming more familiar with cooperative financing methods, an area they have been relatively unfamiliar with in the past.

Securities of the nonpatronage refund kind are now mostly debt since large cooperatives have given up Section 521 and can no longer deduct stock dividends in computing income taxes. The Securities and Exchange Commission is closely watching cooperatives engaged in interstate commerce. If they issue nonpatronage refund paper and if they are not "exempt" under Section 521 of the IRS code, cooperatives may find it quite difficult to avoid SEC registration requirements. Registration is costly, time consuming, complicated, and requires full disclosure.

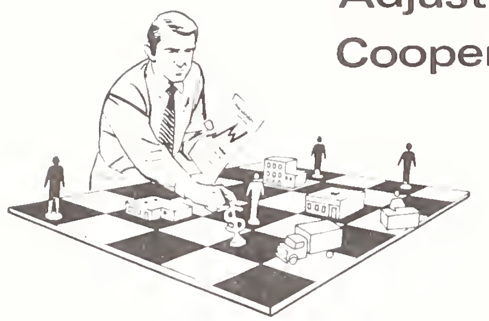
But the use of nonpatronage refund paper carries with it some significant advantages that may make registration worth the trouble. A strong locally or regionally known cooperative may find it relatively easy to attract supplemental nonpatronage refund capital from its membership base or from the rural area in which it operates.

Leveraged leasing, a relatively new development in the leasing field, appears to have some special advantages for cooperatives and received considerable attention a few years ago. Few cooperatives actually used the technique and the concept has since declined in interest due partially to its complicated nature and to the fact that the Banks for Cooperatives system cannot legally participate. However, cooperatives with planned investments over $5 million may need to consider the financial advantages of leveraged leases.

Supply cooperatives have traditionally relied on limited cash patronage refunds combined with long-term, interest-free, revolving-capital funds. Cooperative leaders must recognize that many farmers who are able to manage high returns to their capital find the provision of capital to the cooperative to be a major (and unrecognized) sacrifice. Cooperatives should strive harder to put the financial burden on current patrons and to retire equity of former members.

Some marketing cooperatives have recently started using the base capital plan—a plan that puts the financial burden on current patrons, maintaining the necessary equity capital, and eliminating the need for large revolving fund payments. Some regional supply cooperatives are helping their local members to retire equity of former members.

Members of marketing cooperatives can expect the future to bring greater demands for 'front-end equity capital.' This ties in with the farmer commitment concept and requires that the cooperative concentrate on making the farmer a more direct participant in the cooperative system. Member participation will determine the cooperative's future.



Adjusting the Individual Cooperative to a Strategy

Evaluating the environment and developing a worthwhile strategy is important, but no matter how perceptive the strategy is, it is useless until brought alive. This takes planning.

Planning is the tool that is used to take the strategy from the drawing board and put it into the framework of everyday business. Planning programs the activities of a cooperative around its strategy, enabling the cooperative to utilize its limited resources as efficiently as possible in achieving the cooperative's designated objectives.

Planning to place a strategy in operation has two essential ingredients.

First, the planning must be formal and provide a framework for organizing the activities and resources of the cooperative to meet its basic objectives. Cooperatives have had a late start developing formal planning systems vis-a-vis non-cooperatives. This is in part because they have not felt the same pressures to plan that others have. As a result, cooperative planning efforts are about 5 years behind those of others. Cooperatives generally lack expertise, planning models, and the information systems required to backstop detailed planning.

Second, an effective board-management team is needed to work with the planning framework. This team holds many of the keys to cooperative survival. The creativity rests here, and the ability also must rest here.

Some changes are necessary in many cooperatives. Both boards and management may need to upgrade their abilities. Both need to better understand their tasks in planning. Management needs to be given more incentive to innovate and the board must orient its thinking around the larger issues of the business.

Essentials for Planning

A *formal planning system* is the first essential for good planning. It coordinates and combines planning activity so as to produce a single document that articulates the cooperative's strategy. There are three advantages to formulating a comprehensive document: (1) It ensures a clear, definite plan of action; (2) it defines the responsibilities of each manager and his department; and, (3) it makes decisionmakers think about long-term as well as short-term results.

A *set of complementary plans* is the second essential. Decisions must be made at various levels in the business and involve different degrees of futurity. Various types of plans are necessary to meet these different needs. They are best described as operational, project, strategic, and corporate plans.[31]

Operational plans present the detailed network of activities the firm will actually undertake. For this reason operational plans have a very short time horizon. Starting with

[31]J. R. Champion, "Corporate Planning in CPC Europe," *Long Range Planning*, December, 1970.

goals and objectives for current operations, usually by division or commodity, detailed plans are developed for marketing, production, manpower, and finance.

Project plans deal with projects that the cooperative is appraising or to which it is committed. These plans are initiated to assess the impact of certain developments in current operations, either changing their scope or redirecting them. Thus, project plans can be very diverse, ranging from those dealing with upgrading a trucking fleet to those that create a new division.

Strategic plans present a broad course of action that is the optimal way of attaining the mission of the cooperative. A strategic plan specifies the kind of cooperative members want, the scope of the business, objectives of the business, goals to be attained, and ways to measure accomplishments. The strategy is described with reference to product-market posture, service to members, return on investment, cooperative size, and relationship with employees and external institutions.

The corporate plan is the overall plan that comes out of the coordination and combination of the above plans. It is the end result. The corporate plan can be used by top management to view the big picture and compare divisions.

A *suitable planning horizon* is the third essential for good planning. The planning horizon is the time frame in which informed projections are made. The time period should be long enough to allow for realistic and responsible planning. Specific needs should be anticipated far enough in advance so they can be filled in an orderly manner.

Two basic criteria are used when determining the planning horizon. The first is accuracy of prediction. The business should look only as far into the future as can be estimated within reasonable probability using the best available intelligence. The second criterion is commitment of some management time to think about the future rather than current operations.

Corporate planning requires that the different types of plans have compatible time horizons. Then they can be integrated to provide an overall plan. Generally, corporate planning has a 3-, 5-, or 10-year horizon because this seems a reasonable compromise between the cost of planning future events in detail and the need for an adequate time perspective.

Full participation in the planning process is the fourth essential. The best plans require that every individual and group expected to contribute to the achievement of the plans be involved in their development. Producing a planning document is a futile staff effort if the decisionmaking executives fail to involve themselves in the formulation and implementation of plans.

Planning Now Being Done by Cooperatives

Many cooperative managers interviewed were well aware of the importance of planning. However, only recently have they come to view planning as an essential function. Consequently, most planning activities of cooperatives lag 5 or 6 years behind those of non-cooperatives in the same industries. A 1973 study of American companies that do planning found that 47 percent had been planning over 5 years, 33 percent between 3 and 5 years, and only 19 percent less than 2 years.[32] Of the nine cooperatives in the core sample only one had been planning for over 10 years, one for 7 years, and the rest had started only in the last several years.

---

[32]Robert M. Fulmer and Leslie W. Rue, *The Practice and Profitability of Long Range Planning*, Planning Executives Institute, Oxford, Ohio, 1973.

Management in eight of the core sample cooperatives believed they had effective planning programs, despite their late entry into formal planning. This did not mean there were no problems. Management in the two cooperatives doing the most advanced planning were gravely concerned about the inadequacies of the management information system that supplies their planning information. Both were aggressively trying to upgrade their accounting function, their information system, and the ability of management to use the system.

Only four of the core sample cooperatives appeared to have the broad scope of coordinated planning necessary to develop a corporate plan.

Most large cooperatives have an operational plan; some call it a budget and others a plan. Other cooperatives tend to do budgeting that merely extends current financial statements into the future with little regard to marketing and production plans. In some cases even pro forma budgets were poorly done.

Many cooperatives undertake planning only when they have projects of major importance. The main differences among cooperatives that develop this type of plan were in the kind and number of projects scrutinized. Some cooperatives appeared to have done only one project plan in the last 10 years while others had developed a number of project plans every year.

The time horizon of the plans is an issue closely related to the type of plans being formulated. Several managers confused the time horizon of project plans with that of the overall organizational plan. They assumed that because particular project plans were made for a certain number of years, the cooperative's total planning effort considered the same time horizon. This often was not the case. Project plans had time horizons far beyond those of other types of plans.

Most large regional cooperatives surveyed had planning horizons of 4 or 5 years. Smaller regional cooperatives had plans with horizons of 2 to 3 years. Few cooperatives had plans extending over 6 years. Many cooperative managers plan to expand their planning horizons to either 5 or 10 years.

Those participants who should have a part to play in the formulation of plans are the board, management, the planner, and the economist. Management in all core sample cooperatives told the researchers that the board set business policies, an integral part of strategy selection. Only one cooperative, however, had a board committee that developed and reviewed the strategic plan.

Managers of two of the nine core sample cooperatives thought that the board should concern itself only with broad policies while letting operating policies lie in management's realm. Management of three other cooperatives generated policy recommendations, which they sent to the board for action. In all three, cooperative directors believed that they still maintained effective control over their organizations.

All core sample cooperatives presented their annual budgets to the board for approval. In only one case did a cooperative explicitly state that it presented a corporate plan to the board for approval.

The time which top management thought it should spend on planning was indicative of its commitment to planning. Managers in nine core sample cooperatives were asked if top management should commit a great deal of its time to planning. Management of the three most aggressive and growth-oriented cooperatives strongly agreed that this should be the case. Three others concurred and the remaining three disagreed.

Several cooperatives have set up separate planning units, usually one person, to assist management in planning. Other cooperatives have tied part of the planning activity

either to financial or economics personnel. The typical role of these units is scheduling planning activity, providing technical assistance in planning, and consolidating plans. Top management has maintained sole responsibility for evaluating the plans generated.

Cooperatives also have used consultants in planning. They have proved valuable because of procedural, functional, and systems know-how—in part due to their experience with formal planning arrangements in other companies. They may be used on a continuing basis to provide insights into new thinking and techniques of planning.

The use of economists in assisting with planning was minimal. Yet, five of the core sample cooperatives listed economic factors as having the greatest influence on the organization at present. Only one of these cooperatives had an economist with an advanced degree, yet none of them intended to hire any economists.

Some Planning Lessons Learned[33]

Greater formalization of planning is needed. Responsibility for planning activities should be assigned and procedural rules developed. Premises and assumptions used in planning should be written down. This formalization will improve the planning process and result in better plans.

Quality of planning needs to be improved and plans made more comprehensive. Few cooperatives do as much planning as they should and much of what they do is disjointed.

Timely information needs to be collected to permit comparison of plans with reality. A control system can then provide an explanation for the differences between the two and allow for suitable adjustments in plans.

Delineation of tasks in planning is necessary. For example, directors and management have different roles in planning. Various members of the management team have different roles. Proper delineation of tasks should eliminate redundancies in workload and minimize conflict between management and the board and among members of the management team.

The manager must demonstrate his interest in planning and set an example. If he does not, senior line executives will let technicians do the planning.

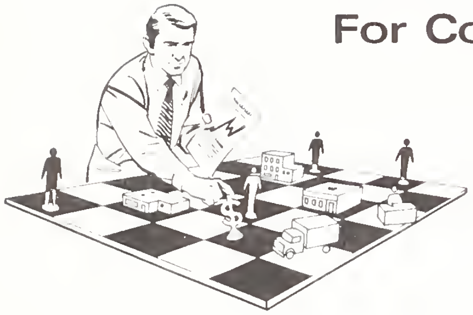
Middle management must be actively involved in planning. Management by objectives(MBO)is a managerial philosophy that may promote this involvement. Unfortunately MBO has had only mixed success in several cooperatives that have tried it. Some acceptable method is needed to motivate all managers to achieve goals that contribute to cooperative success.

The board must undergo a number of changes before it can work competently in the strategic process and maintain a productive dialog with management. Board members must be better informed about their role in the planning process. Many boards need to be reduced in size or subdivided into subgroups or committees when handling detailed business. Members of the board, if more adequately rewarded and acknowledged for efforts, probably would become more involved in planning.

Cooperatives are moving in the right direction by improved planning, but planning needs more emphasis. Improved strategies necessary for cooperative survival will do little good until plans to put them into action are made and followed.

---

[33]Changes discussed here stem from lessons learned from the cooperatives studied or from that reported about planning by non-cooperative organizations.



Outlook and Implications For Cooperatives

To select an appropriate strategy and to plan for the future require much knowledge. This study was undertaken partially to meet a need for a more integrated, up-to-date compilation of appropriate information needed by farmers, cooperative leaders, and others to build strategies that will help the individual family farmer survive.

Cooperative leaders who are committed to planning must assess the environment and the current and future status of agricultural cooperatives. To help in this assessment, eight major components that are expected to influence the direction of cooperatives are identified. They are: (1) Structure, (2) cooperative functions, (3) competition, (4) geographical market orientation, (5) level of management, (6) capital, (7) public policy, and (8) public sanctions.

Structure

Farmers are traditionally independent businessmen, and their attitude toward cooperation is not expected to change significantly. Some increase in member commitment may occur as cooperatives develop more coordinated marketing programs. Growers will enter these programs because they will be considered an improvement over deteriorating open markets and an opportunity for participation in vertically integrated operations.

Cooperative structure is expected to continue its past trend of fewer cooperatives but larger sized individual cooperatives. Merger and consolidation activity among local and smaller regionals will gradually reduce cooperative numbers. The objective will be to reach more efficient operating size and to reduce overlapping of cooperative services. Horizontal merger activity among large regionals will probably be limited as a result of legal constraints. Some regionals will move further towards centralization, at least in some functions such as management of locals. However, the federated concept is likely to remain the most common structure.

Interregionals will be increasingly used in foreign trade, fertilizer production, energy search and production, joint ownership of transportation systems, and possibly the distribution of processed farm products. Thus, interregionals are expected to increase in number and size. Such organizations are not likely to be used widely for the sharing of market information (except for bargaining groups) or for joint sales of processed farm products. Joint ventures between cooperatives and non-cooperatives may increase slightly (there are very few existing today). The many problems inherent with these relationships will limit their use. Cooperative leaders are likely to show more interest in the alternative of multi-cooperative organizations.

Cooperative Functions

Supply cooperatives are expected to continue expanding current efforts to become more basic in the production and ownership of farm inputs. Increasing scarcity of resources and fluctuating prices will make this necessary. Increased use of interregionals will make it possible.

Cooperatives will experiment with more vertical integration in food processing. They will do this for several reasons: (1) To get the farmer more of the consumer's dollar, (2) to make some money by exporting food research and development; (3) to assure the farmer a direct consumer outlet for his production even if it means developing a new domestic or foreign market; and (4) to enhance farm bargaining power.

Because of the high capital requirements, vertical growth will be primarily restricted to large regional cooperatives. Much of this vertical growth will occur through acquisition of noncooperative firms which are already in the market. Although this approach will be taken to reduce the high risk and substantial cost of market development, such a route will be difficult and internal growth also will be necessary.

Cooperatives' market share of agricultural product processing will likely increase somewhat. But aggressive competition from noncooperative firms could easily reverse that trend. There will be increased interest in serving the food service industry because of its importance in insuring access to the consumer. Indications are that cooperative vertical integration will not advance substantially into food retailing.

In both the supply and marketing fields cooperatives will increasingly diversify their operations but will continue restricting them to agricultural related businesses. The only exceptions may occur in the marketing of farm type inputs to customers living in suburban areas.

More and better coordination of supply and marketing functions is likely. Such coordination will be necessary to support new marketing activities and to assure markets for farm supplies. The full service cooperatives, supplying one-stop service for farm inputs, marketing facilities, credit, and services will probably become more popular because of potential economies and because patrons will expect them.

The growth of bargaining cooperatives will be highly dependent on general farmer support for National and State bargaining legislation. Since grower support shows no significant signs of increasing, growth in this area is expected to be limited and may not add to the current share of farm products sold in this way.

Competition[34]

In the handling of some farm supplies, cooperatives may experience a decreasing level of competition from non-cooperatives. This trend is expected because of the well established delivery system that has been built up by supply cooperatives, the increased number of farm patrons cooperatives were able to obtain during the fertilizer shortage, the service emphasis in cooperative purposes, and the recent discontinuance of farm related activities by noncooperative firms in response to better profit opportunities.

Competition between cooperatives and non-cooperatives in the marketing area may increase. This will occur because of the increased vertical integration and market share that cooperatives are likely to achieve. Increasingly, cooperative marketing firms will find

[34]Competition as used here refers to a conscious striving among business firms for patrons.

themselves competing with the large diversified firms whose overall financial and managerial strengths are likely to be superior. This will be especially true in new and expanding businesses such as the food service industry.

Some regional cooperatives will most likely find competition slightly increasing among themselves both in the supply and marketing areas. Most regionals will probably respect their traditional membership areas but a few large ones will take the offensive in expanding into marketing areas which they believe to be inadequately served. Competition for volume and a need to diversify may also stimulate competition among cooperatives. Regulatory trends may be another factor influencing this competition. In the past cooperatives finding themselves providing similar service in the same market occasionally decided to merge their operations. Such horizontal merger activity will be increasingly difficult, especially for large regionals. But mergers that combine completely separate functions will not be affected. Local cooperatives will probably continue to merge with little or no legal restraints.

Geographical Market Orientation

The emphasis in farm product marketing will be in local or regional markets. Severe competition and high capital requirements will prevent most cooperatives from entering national markets, although some large, aggressively managed regionals may increase their thrust in this area.

International markets will continue to be important to U.S. farmers and some efforts to enter or expand into these markets will be made by individual cooperatives. But the volume, capital, and managerial expertise necessary will encourage the use of multi-cooperative organizations.

Level of Management

Cooperative boards and management will become better trained and more progressive as the competitive environment becomes tougher and cooperatives become larger. Operations will be less on a traditional cooperative basis and more like non-cooperative businesses. Salary differentials between cooperatives and non-cooperative firms will narrow but will persist because of fringe benefits available in non-cooperatives, such as stock options, that are not available in cooperatives. Some progressive farmer cooperatives will find more ways of tying management compensation to the cooperatives' net margins. Selecting top managers from within will allow few opportunities for experienced personnel from non-cooperative firms to enter the upper levels of cooperative management except in the very largest organizations (often the interregional).

Cooperatives will gradually recognize the benefits of long-range planning. The increasing complexity of industry, increasing risk, and the rapidly changing economics environment will stimulate planning for 5 to 10 years ahead.

Capital

Both the large total capital needs of individual cooperatives and the strong competition for 'farm' capital will encourage past trends towards an increased debt-to-equity ratio for cooperatives. As a result, the problems in the capital area may become more directed towards equity capital availability than toward debt.

To obtain and retain needed equity capital, many cooperatives may be required to

move away from traditional cooperative financing methods. Capital plans may include replacing revolving funds with more permanent member capital so that the current member shoulders most of the equity capital burden. Activities in the marketing area that directly benefit a particular group of farmers increasingly will use 'front end' capital, primarily from the group affected.

The single-risk, credit limits of the Banks for Cooperatives may continue to reduce the overall share of debt provided from this source. But small cooperatives are not expected to reduce their reliance on the Banks.

Large cooperatives will move to alternative sources of capital to overcome potential capital constraints imposed by credit limits of the Banks for Cooperatives. These will include the possible use of the commercial paper market. The determining factor will be future Securities Exchange Commission rulings.

These large cooperatives increasingly will be sought after by investment banking firms as well as by commercial bankers. Treasurers will be forced to increase their knowledge and use of capital from alternative debt sources. Commercial banks may become a more important source of capital because of the additional services they can offer, especially in export financing.

Public Policy

Cooperative leaders will become more involved in public policy, trying to influence public opinion about cooperatives. The controversy over public cooperative treatment and the increasing involvement of the government in business affairs (energy, transportation, and environment) will probably encourage more participation of cooperatives in forming and backing legislative efforts of the National Council of Farmer Cooperatives. Cooperatives will also be forced to boost their individual lobbying efforts.

Although individual cooperatives currently show little concern over farm policy legislation, cooperatives may gradually become more involved in designing or shaping these policies. The declining farm population will place a greater responsibility on cooperatives and the increased national and international sales activities of regional cooperatives will encourage greater input into foreign trade policies.

This public policy involvement will be direct and through commodity groups. One reason that commodity groups may be used is the expected trend toward commodity-oriented farm policies. Joint efforts with the general farm organizations may decrease as cooperative management seeks to separate the social aspects of farm groups from the cooperative's business interest. Commodity-oriented cooperatives and general farm organizations should look for mutual interests and should guard against unwarranted competition between the two groups.

Public Sanctions

Public sanctions are likely to come under increased scrutiny from both the public and from non-cooperatives as cooperatives increase in size, diversification, and area served. No new major sanctions are likely to be sought or gained for cooperatives.

Existing sanctions will probably remain but will be interpreted more narrowly and cooperatives will be watched more closely than in the past. The Capper-Volstead Act may well be brought up for study. Areas affected would be monitoring for undue price enhancement and the "marketing agencies in common" provision.

Tax administration under existing laws will become increasingly restrictive as taxing authorities attempt to increase revenues through elimination of benefits bestowed on certain organizational forms. Current attempts to define a producer and a cooperative and how a cooperative should be operated are further indications of a future restrictive tax policy.

Expected Changes With Different General Strategies

The relative emphasis placed on many factors covered in this discussion of the future will be affected by the degree to which cooperatives accept and modify the three general strategies.

The *integration and coordination strategy* emphasis would put many stresses on cooperatives. The number of cooperatives would be greatly reduced, with large regional and interregional cooperatives dominating and the competition among them increasing. Competition with large agribusiness conglomerates would be more direct.

If vertical integration increases, pressure for growth would intensify. Producer loyalty and equity problems would multiply and more use would be made of marketing agreements.

Key problems would center on how far to integrate into processing. Another major issue would be the level of emphasis on consumer entree. General farm organizations would be concerned by this commercial, seemingly nonfarm, emphasis.

Markets would widen, and ability to handle foreign marketing would improve. Management sophistication would need to be developed substantially with much more thorough planning, especially of large, new ventures. Capital needs would increase and sources would be more diversified and innovative. Public scrutiny would increase and current public sanctions increasingly would be challenged.

The *bargaining collectively strategy* emphasis would change the orientation of cooperatives drastically. Where cooperatives have historically been reactors, they would become countervailing powers. Often this would mean moving first before the competition and exerting more market control. The decision as to who would be the bargaining agent would be a severe problem.

Larger cooperatives, probably interregionals, would be needed to make national bargaining programs effective. Some special crops and products still would be bargained by smaller, more specialized bargaining cooperatives.

Cooperatives would enter into processing and distribution to protect their bargaining power. Dairy cooperative growth is a good example. Orginally pursued to enhance bargaining efforts, that growth policy has since developed into using the integration and coordination strategy. Competitors likely would view such a strategy as a direct power confrontation and would resist it.

Bargaining cooperative management would be more specialized, with particular emphasis on techniques of negotiation, use of market information, and political involvement. Capital requirements would not be as great as for the integration and coordination strategy.

If public policy programs shifted in the direction of bargaining, this would markedly increase emphasis on the bargaining strategy. But that is not expected unless the economic status for farmers deteriorates substantially. The self-serving nature of such public sanction would be greatly challenged by the groups, especially organized consumer groups.

The *maintaining and improving the open market strategy* emphasis has much philosophical appeal to farmers. It is consistent with their conservative political and economic history and the basic orientation of much early cooperative activity. But this emphasis would be in opposition to most changes in business structure and organization in recent years. Modern management has reduced the number of buyers and sellers, reduced the number of price-making points, has put under control more marketing functions, and has probably concentrated market information into fewer hands.

To reverse these trends would be a major task for cooperatives even as an organized group. Cooperatives have some special public sanctions and possibly some legal and other comparative advantages which would allow them to reverse the movement away from the open market concept. They are relatively free to work on the price making area, the information gathering area, and inter-firm cooperation.

The public might support these activities. Non-cooperative businesses would resist them. Management levels would need to be increased over current levels in cooperatives following this strategy, but such a strategy would not require the management sophistication nor the capital requirements needed for the integration and coordination strategy. An open-market type of public policy for farm income enhancement would favor the open market cooperative strategy.

Strategic Implications for the Individual Cooperative

In selecting and developing a strategy, individual cooperative leaders must keep four points in mind. The strategy must be: (1) Appropriate, (2) decisive, (3) balanced, and (4) consistent.

The unique nature of a cooperative requires that the strategy be *appropriate.* Managers of cooperatives studied were greatly interested in what others are doing and planning. Farmers and managers must study cooperative strategies used by others, but they must not simply mimic other strategies. A strategy should synthesize ideas, but retain the unique comparative advantages of the individual cooperatives.

A *decisive* strategy is a prerequisite for total planning. The rigor of precision is a growing component of modern planning. For example, a computerized planning model is a precise instrument and will not tolerate indecisive, sloppy, poorly defined strategies.

A *balanced* strategy is required for effective use of resources and equal treatment of member-patrons. This may be difficult. Does the strategy effectively use the facilities available or readily accessible? Does it utilize existing or planned management capability?

A *consistent* strategy has staying power over time and an aspect of adaptability. The environment continuously changes. When conditions change, a new but consistent option should be ready to implement without having to design a whole new strategy.

Strategic Implications for Cooperatives in General

Cooperative leaders must assess the effect of their strategies on cooperatives in general. They must be assertive, timely, oriented to other cooperatives, producer-oriented, and socially responsible.

An *assertive* strategy goes against the status quo approach that is sometimes used by farmers and their cooperatives. It means that farmers are directing their cooperatives to take positive actions.

A strategy that is *timely* may help farmers and their cooperatives to survive. Timely strategies can assure that farmers through their cooperatives have entree to the final consumer markets, access to scarce sources of raw materials, maintenance of farm-produced food ingredients, continued retention of appropriate public sanctions, and a shared portion of expanding foreign markets.

A strategy that is *oriented to other cooperatives* takes advantage of the commonalities they have. Cooperative leaders too often become preoccupied with individual immediate problems. This type of action can result in a poor strategy because of its effect on other cooperatives and its failure to take advantage of the benefit of cooperation with other cooperatives.

The strategy must be *producer-oriented.* The public historically justified cooperatives on the grounds of producer needs—special needs to cooperate. A few violations of this concept by individual cooperatives could have important consequences for cooperatives in general.

Farmers must take the responsibility to see that cooperatives establish *socially responsible* strategies. Policymakers acting in the projected social and political environment are not expected to tolerate cooperative strategies that are socially irresponsible.

Conclusively, how well cooperatives survive may not only depend on good leadership but on good leadership with statesmanship. Competition will be stronger. Cooperatives increasingly will compete among themselves. Growth at times will be difficult to achieve. Special privileges will be limited. All these developments and more will put pressure on cooperative leaders.

Other Publications

Subsidiaries Of Agricultural Cooperatives. Charles A. Kraenzle, and David Volkin, Cooperative Research Report 4. Forthcoming.

New Dimensions of Cooperative Bargaining—Proceedings: 22nd National Conference of Bargaining and Marketing Cooperatives. January 7-8, 1978. San Francisco, California. ESCS Report 31. August 1978. 114 pp.

Cooperative Facts. Cooperative Information Report No. 2. July 1978. 20 pp.

Growth of Cooperatives in Seven Industries. Lyden O'Day. Cooperative Research Report 1. July 1978. 50 pp.

Cooperative Strategies for the Pork Industry. Marketing Research Report 1097. July 1978. 36 pp.

Motortrucks Operated by Farmer Cooperatives. Eldon Brooks and Earl B. Miller. FCS Research Report 47. June 1978. 24 pp.

The Future Role of Cooperatives in the Red Meat Industry. Marketing Research Report 1089. April 1978. 99 pp.

Midsize Farm Supply Cooperatives, Characteristics, and Growth Strategy. John M. Foschia. FCS Research Report 45. March 1978. 32 pp.

Farmer Cooperative Directors, Characteristics, Attitudes. Gilbert W. Biggs. FCS Research Report 44. February 1978. 58 pp.

Farmer Cooperative Publications. Cooperative Information Report 4. 1978. 44 pp.

Equity Redemption Practices of Agricultural Cooperatives. Phillip F. Brown and David Volkin. FCS Research Report 41. April 1977. 31 pp.

Legal Phases of Farmer Cooperatives. Information 100. Morrison Neely. 1976. 744 pp. (Also available in 3 parts: Pt. I: Sample Legal Documents Pt. II: Federal Income Taxes. Pt. III: Antitrust Laws.)

For copies write Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, Washington, D.C. 20250.

COOPERATIVE PROGRAM

U.S. Department of Agriculture
Economics, Statistics, and Cooperatives Service

The Cooperative Program of ESCS provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Program (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Program publishes research and education materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.